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NEWS SUMMARY

GENERAL

Reprieve for BBC services expected

The Government is expected to announce today a reprieve for at least some BBC foreign language services scheduled to be axed under a £3m cost-cutting exercise announced in June.

Seven services were to be discontinued and the subsidy ended to the transcription service which sells the programme overseas. Nearly 200 MPs have signed an early day motion condemning the cuts and the Lords have voted 83-45 against them.

Polish party hope

Polish communist party leaders are still hoping to bring more non-party members into government, politburo moderate Kazimierz Barcikowski said in Poznan.

Solidarity charges

Seven members of Poland's Solidarity union were charged with distributing publications "slandering the socialist system." Six of them were from Chelm, eastern Poland.

'Goal of peace'

Egypt's deputy premier Kamal Hassan Ali said on arrival in Israel that his presence was "the embodiment of the determination of Egypt to proceed towards the goal of peace." Page 2

Arafat Greek visit

Palestine Liberation Organisation leader Yasser Arafat has accepted an invitation from Greece's Prime Minister Andreas Papandreou to discuss upgrading the PLO office in Athens.

Awacs forecast

U.S. Senate majority leader Howard Baker said he believed President Reagan would win Congressional approval on Wednesday to sell advanced radar warning aircraft (Awacs) to Saudi Arabia.

Bhutto move

Pakistan's military rulers started legal proceedings against the family of executed prime minister Zulfikar Ali Bhutto to recover about Rs 5m (£275,000) it says he misappropriated.

U.S. denies threat

The U.S. embassy in Rome denied reports that Ambassador Maxwell Rabb had been recalled to Washington because of death threats by Libyan leader Muammer Gadaffi.

Scargill boost

Ray Chadburn, who is challenging Yorkshire miners leader Arthur Scargill for presidency of the National Union of Mineworkers, has failed to secure nomination from his Nottinghamshire area branches. Back Page

NEC row looms

A row threatens this week over membership of sub-committees of Labour's National Executive Committee. Moderates say supporters of Tony Benn will remain in control despite defeats at last month's elections. Page 4

TUC newspaper

TUC plans to launch a national newspaper are running into difficulty. Less than half the £40,000 needed for a preliminary study has been raised. Page 7

Skull returned

The skull of a 20m-year-old creature believed to be an ancestor of man was returned to Kenya from the British Museum in London after a nine-year dispute.

Prince and Princess of Wales begin a three-day tour of Wales tomorrow.

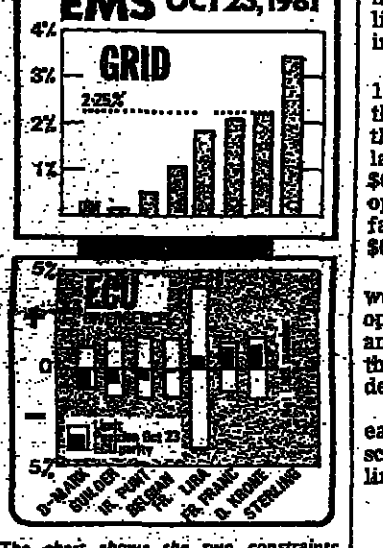
BUSINESS

Economic boom by 1983 forecast

● ECONOMIC ACTIVITY will pick up sharply next year and accelerate to a boom in 1983 and 1984 says the Liverpool University research group. Page 5

● INTEREST RATE increases in the past five weeks have hit businessmen's confidence about industry's prospects of climbing out of the recession says the CBI. Back Page. CBI call for extended tax concessions, Page 5

● THE D-MARK fell to its lowest permitted level within the European Monetary System last week and continued to lose ground against the dollar despite intervention by the Bundesbank. The Danish krone rose to the top of the system, replacing the French franc. The franc was slightly easier, reflecting the sharp fall in domestic money rates. Call money reduced every day except Monday, ending the week at 16 per cent from 17 per cent last week. Elsewhere currencies showed little overall movement with the Italian lira in third place ahead of the Belgian franc. The Irish punt was fifth followed by the Dutch guilder.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the central rate against the European Currency Unit (ECU) itself a basket of European currencies.

● VENEZUELA is returning to the medium-term Eurocredit market for the first time in more than a year with an invitation to banks to submit terms on a 10-year $500m (£273m) credit. Page 19

● SWISS BANK Corporation and Union Bank of Switzerland, which recorded record profits in 1979 and 1980, expect good results this year. Page 28

● PRESIDENCY OF BANK for International Settlements in Basle is likely to go to Swiss National Bank president Dr Fritz Leutwiler. Back Page

● WEST GERMAN Government's plan to use DM 10bn (£2.41bn) of Bundesbank profits to help close the Federal budget deficit next year has been opposed by the political opposition and bankers. Back Page

● BRITAIN granted Mexico an aid and credit package to secure a steel plate mill contract for Davy Loewy of Sheffield. Page 3

● CORRIERE DELLA SERA, Italy's leading newspaper, did not appear on Saturday because of a strike over redundancies planned by its publishers, the Rizzoli group. Page 28

● MANAGERS of a Dunlop division making industrial process heating systems have formed it into an independent company following a buy-out agreement. Page 5

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Marches challenge Reagan nuclear strategy

BY OUR FOREIGN STAFF

IN SOME of the biggest protest marches ever seen in Western Europe, demonstrators this weekend mounted their most concerted challenge yet to plans to deploy new U.S.-built nuclear weapons and warheads on the Continent and in the UK.

Faced with demonstrations totalling up to 750,000 in London, Rome, Brussels and Paris, the response of the U.S. and its Nato allies committed to deploying new missiles was restrained.

The State Department in Washington would say nothing but Mr Caspar Weinberger, the U.S. Defence Secretary, said of the London demonstration before flying from London to Washington yesterday: "I think they should be taken seriously. Anything that gets 150,000 on the march has to be taken seriously, but it doesn't change the policies of the Government.

"It is completely understandable but it is the wrong way to get the result we all want—no war."

In London the Foreign Office voiced fears that popular pressure for disarmament in Western Europe would make it more difficult to negotiate arms limitation reductions with the Soviet Union.

While protest organisers made a point of calling on the Soviet Union to ensure a nuclear-free Europe, the thrust of the demonstrations—conservatively estimated at 150,000 in London and Rome each on Saturday with 120,000 in Brussels and 50,000 in Paris yesterday—was overwhelmingly anti-American.

Brussels police estimated the crowd there at between 100,000 and 120,000. The organisers said 200,000 took part and described it as the biggest demonstration ever held in Belgium.

Saturday's march in Rome is said to have been the biggest demonstration the city has seen since protests against the Vietnam war in the late 1960s.

Police estimates put the number of demonstrators in London on Saturday at 150,000. The organisers, the Campaign for Nuclear Disarmament, claimed 250,000 but even the lower figure places the march among the biggest seen in the British capital.

The British Government is unlikely to be directly influenced by the CND demonstrations. Nevertheless, Ministers are worried about the growth of the anti-nuclear movement, and the fact that the Labour Party is committed to unilateral disarmament. Privately, some acknowledge that President Reagan's recent remarks about nuclear wars being "limited" to Europe have been unhelpful.

Yesterday Mr Douglas Hurd, Minister of State at the Foreign Office, said the campaign made it "less likely" that the Russians would reach agreement at the conference table.

CND was signalling to the Soviets that there was no need to stop deploying missiles or end their part of the arms race, and no need to make concessions to the West

World's airlines lose $1.1bn and face further bleak year

BY MICHAEL DONNE

THE WORLD'S airlines face another year in which there is little hope of them operating profitably. Last year they collectively lost $1.1bn (£602m) and the present year is likely to be at least as bad. It could even turn out worse.

The only solution, according to Mr Knut Hammarskjold, director general of the International Air Transport Association (Iata) is to reduce costs and increase yields. He says in his annual report: "There is little hope of a return to operating profitability this year."

Mr Hammarskjold will tell the 111 member airlines in Iata at their annual meeting in Cannes that operating revenues rose last year by 23 per cent to $60.80bn (£33.28bn) but that operating expenses rose even faster — by 25 per cent to $61.8bn (£33.82bn).

The losses of $1bn were worsened when other non-operating items, such as taxes and interest, were included, so that the overall result was a deficit of about $1.1bn.

"For every $100 of revenue earned in international scheduled service, the Iata airlines needed at least another $13 to stand comparison with other multi-national commercial organisations, and to put them on a competitive footing for fresh investment funds," says Mr Hammarskjold.

The North Atlantic route continued to be a massive loss-maker — "a severe financial haemorrhage" with losses estimated at more than $500m. Almost every airline on the route "has accumulated enormous losses."

"The Iata airlines on the route should have earned another $17 per 100 actually earned on this route in 1980," he says. This was in order to cover operating costs, meet interest repayments, and other financial commitments such as taxes, and achieve a return on capital.

Mr Hammarskjold is especially worried at the way in which the bleak situation on the North Atlantic is spreading to other air routes. *On some of these* others "the lack of profitability was worse in relative terms."

Such routes included those between Europe and the Middle East, and between Europe and the South-West Pacific, while even within Europe the airlines failed to cover operating costs in 1980.

Pointing to one of the main causes of the airlines' troubles, Mr Hammarskjold says that despite lack of demand (the Iata airlines' passenger traffic fell 2.9 per cent to 374m) the amount of capacity offered (in available seat-kilometres) rose 6 per cent to more than 1,000bn. International capacity was 7 per cent above 1979 levels and domestic capacity increased by 4 per cent.

The airlines are particularly concerned at the impact on their finances of damaging industrial disputes, particularly in air traffic control services. Mr Hammarskjold estimates that the cost in lost revenues to the airlines of the controllers' dispute in the UK this summer, and the later U.S. dispute (partly supported in Canada, Portugal and France) together amounted to between $400m and $500m.

He says Iata's policy is that its member airlines, under their national laws, should take legal steps to restrain industrial action by air traffic controllers, "and in the event such action is taken, seek recovery of damages."

BL resolute on pay and says no talks planned

BY CHRISTIAN TYLER, LABOUR EDITOR

ONE WEEK before the BL strike deadline expires, the motor company is pulling out all the stops to convince its employees, politicians and the public that it has no choice but to stand fast on its wage offer.

Although union leaders last night declared it was inconceivable that there would be no further talks this week, the company said nothing had been arranged and even if the two *sides did meet no more money* would be forthcoming.

The Advisory, Conciliation and Arbitration Service—headed by Mr Pat Lowry, the former BL director of personnel—has talked informally to both sides in the dispute. But *ACAS is unlikely to try to* intervene so long as there is an outside chance of the two parties getting together unaided.

Sir Michael Edwardes, BL chairman, is said to be convinced that the workers will clock on normally next Monday in spite of the overwhelming vote for a strike at mass meetings.

Meanwhile he will be briefing MPs of both major parties in the coming days in an effort to staunch the criticism of his ultimatum to liquidate motor plants that are halted by strike action.

Today he is due to see Labour MPs from the Midlands, who are anxious to avert what they fear could be an industrial catastrophe for their constituencies.

The BL board last night placed advertisements in all major newspapers defending its stand. Under the heading "The facts that dictate our future," the advertisements claim that BL workers' earnings have on average exceeded the cost of living rise in 1981.

From November 1 the company has offered to add £3 to £4 on basic rates, the equivalent of 3.8 per cent. It is guaranteeing a minimum bonus payment of £3.75 a week and a new bonus ceiling of £30 a week. "We do not have the cash to stand a damaging dispute, even for a few days," the board says.

On Wednesday the board is to decide whether to submit to the Government its corporate plan for the next year with a request for the £540m balance of a £990m State funding programme. It will also decide how to put into effect Sir Michael's liquidation threat if the strike goes ahead.

Last night Mr Terry Duffy, president of the Amalgamated Union of Engineering Workers, said: "*I am sure there will be talks.*" He himself was flying to Nairobi for a meeting of the International Metalworkers' Federation of which he is the British president, but said he would return if needed this week. He has left instructions with Mr Ken Cure, AUEW executive member responsible for the motor industry.

Mr Duffy again called on the Government to intervene. He said: "This Government cannot allow the management to liquidate on the threat of a strike. This is really the most traumatic decision, and I will not believe that the Government will not intervene."

New Chrysler aid plea expected

BY IAN HARGREAVES IN NEW YORK

SOME SENIOR members of the Administration are convinced that they will shortly receive a request from Chrysler, the *struggling motor company, for* additional Government aid.

Mr Murray Weidenbaum, chairman of the President's Council of Economic Advisers, said in a newspaper interview that Chrysler was "laying a foundation" for another aid request during recent meetings between Mr Lee Iacocca, Chrysler's chairman, and Administration officials, including Mr Weidenbaum.

Mr Iacocca himself has been silent on the subject for the last few days, perhaps remembering his comment in an interview about eight months ago that he would sell his children rather *than go back to Washington for* more assistance.

Other Chrysler spokesmen say the question of additional government loan guarantees has not been broached.

Technically, however, Chrysler is well within its rights to ask for an additional $300m (£165m) in loan guarantees, having so far drawn down only $1.2bn of the $1.5bn authorised by Congress last year.

But three serious problems arise in any proposed drawdown:

● The need under the terms of the loan act to come up with a matching $300m in concessions from other sources, *such as workers, lenders or* suppliers:

● The fact that the Administration would itself go through another lengthy period of soul-searching on the issue.

● Another spate of headlines about Governmetn aid for Chrysler could damage car sales.

The biggest of these difficulties would probably be that of matching funds.

Workers already feel they have made huge and unrepeat-

Continued on Back Page

Treasury battles to keep spending at current level

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE TREASURY will return to its battle this week to try to hold next year's public spending total down to around this year's level—in spite of the fact that it has been obliged to revise its cash target upwards by about 3 per cent.

On Thursday, the Cabinet meets in a renewed attempt to reduce the gap, now standing at £3.5bn, between the Treasury's revised cash target for 1982-83 and the demands of the spending *ministers.*

The Treasury's present target of £113.5bn for next year's public spending, would be very close in real terms to planned spending for the current year.

However, if as expected, this year's spending turns out to be more than planned, the Treasury's target would represent a reduction on the actual spending.

Comparison between the two years is complicated by the fact that next year's planning is being conducted in cash for the first time, rather than in "real" terms. Comparisons, therefore depend upon the inflation factors which are applied to the figures.

In cash terms (1981 prices), the total of public spending planned for this year is £104bn, although some overshoot of this figure is likely.

The argument in the Cabinet is being conducted in terms of next year's prices on the assumption that public sector wage costs will go up 4 per cent and other costs will increase by 9 per cent.

On these assumptions, the Treasury's official plans for next year set out in the Expenditure White Paper work out at a cost of £110bn. Now privately increased to £113.5bn.

Under the new cash planning system ministers are able to put in extra bids for their departments above the original allocation to account for unforseen factors since the origial plans were agreed.

Under the old system planning was conducted in "volume" terms. Spending ministries would then automatically receive the cash required to take inflation into account.

Under the new system spending ministers are allocated a cash total which they are supposed to keep within whatever the movement of costs.

The new system puts the onus on ministers to justify unforeseen costs when they put in bids for extra cash above their originally agreed total.

At last week's Cabinet meeting, the extra bids put forward would have increased the target to £117bn. Against this the Treasury has privately increased its target to £113.5bn, partly to accommodate the "uncontrollable" extra costs, like those of unemployment benefit and job creation schemes arising from the recession.

The Treasury has some room for manoeuvre next year because the Government's Medium Term Financial Strategy envisaged that there would be scope for around £1.4bn tax cuts (in cash terms) next year on the assumption of a public sector borrowing requirement which in revalued (cash) terms is expected to be about £9bn.

Study group urges halving of loan rates on industrial projects

BY WILLIAM HALL, BANKING CORRESPONDENT

A £300m scheme to halve interest rate costs on new industrial projects and boost investment in British industry by £3bn a year is to be discussed by the Conservative Industry Committee tomorrow before being sent to the Prime Minister.

The plan, which has received the backing of Sir John King, the leading industrialist, proposes that interest payable on medium and long-term loans for defined industrial projects should be paid by the industrial borrower net of corporation tax at the point of payment of interest. The interest paid would not rank for relief for corporation tax purposes subsequently, as is now the case.

This could effectively halve the immediate interest cost to industry and provide a significant stimulus to cash flow.

The proposal is the main recommendation in a 37-page report by a study group established by Michael Grylls, MP, chairman of the Conservative Industry Committee, "to examine the terms and conditions of bank lending in Britain and its relationship to industry in general."

Under the proposals, the borrower would have the option of fixed and variable interest rates. The Treasury would monitor the scheme—which would be operated by "approved institutions"—and would reimburse them on a quarterly basis for the reduced interest payments.

One of the key conclusions of the study in that current high interest rates a re preventing investment rather than lack of term loan facilities by the banks. "Significant amounts of lower cost medium to longer-term monies would help enormously in encouraging industrialists to take a longer view of investment."

The group was headed by Mr Bill Poeton, chairman of the Union of Independent Companies and one of the principal architects of the Government-backed loan guarantee scheme. He was assisted by Mr Barry Baldwin, a partner in Price Waterhouse, the accountants, and Mr George Edwards, an economist and co-author with Lord Harold Lever of several articles on reforms of the UK financial system.

The scheme would cost around £300m annually, Mr Grylls said yesterday. He believed the Government would get its money back.

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Editorial Comment, Page 16

Egypt resolved to achieve peace says Minister

BY DAVID LENNON IN TEL AVIV

EGYPT's Deputy Premier and Foreign Minister, General Kamal Hassan Ali, the first Egyptian Minister to visit Israel since the assassination of President Sadat, said on his arrival yesterday that his presence was "the embodiment of the determination of Egypt to proceed towards the goal of peace."

General Ali said his visit was "a profound answer to those who try to spread doubts that the peace process depended solely on the person of our late President Sadat. Our newly elected President came to power with a very strong mandate from the people of Egypt based upon his sincere determination and intention to proceed with the peace process."

The Egyptian Minister held lengthy talks with General Ariel Sharon, Israel's Defence Minister, on the technical arrangements for the final Israeli withdrawal from Sinai next April and the normalisation of relations between the two countries.

He will continue his talks today with Mr Menahem Begin, Israel's Prime Minister, and Mr Yitzhak Shamir, the Foreign Minister.

Both General Ali and Mr Shamir will probably make a determined effort to ease the tension which has crept into relations between their two offices following remarks at the weekend from Cairo and Jerusalem which were viewed negatively in the opposing capitals.

The Egyptians were critical of a declaration by Mr Shamir that the Palestinians are not a stateless people as Jordan is a Palestinian state. On the Israeli side there was criticism of alleged remarks of General Ali that Israeli procrastination in the autonomy talks was partly to blame for the assassination of President Sadat.

The Egyptian Minister said yesterday that this was a misinterpretation of his remarks.

It was not clear yesterday if General Ali's presence here for three days of talks will have any impact on the current round of Palestinian autonomy negotiations being held in Tel Aviv at civil servant level.

The reopening of the negotiations after a 17-month break has so far only served to underline the huge gap between the Egyptian and the Israeli concept of the degree of self-rule which the Palestinians of the West Bank and Gaza Strip should be granted.

On Saturday night 80,000 Israelis attended a concert in the main square of Tel Aviv in memory of the late President Sadat. The event was organised by Mr Abie Nathan, a leading Israeli campaigner for peace, and was attended by the Egyptian Ambassador in Tel Aviv.

Anthony McDermott writes from Cairo: The leaders of Egypt's official opposition parties are encouraged that once President Hosni Mubarak has successfully quelled Islamic terrorism, he will turn his attention to stimulating their role more constructively than did Mr Sadat.

Late last week, Mr Mubarak received delegations from the Socialist Labour Party and the Right-wing Socialist Liberal Party. The third opposition party, the Left-wing National Progressive Unionists did not attend. It has no seats in the 392-member People's Assembly and told its members to vote "no" in the referendum which gave otherwise overwheling support to Mr Mubarak becoming Mr Sadat's successor.

In an interview with the Financial Times yesterday, Mr Ibrahim Shukri, Socialist Labour Party leader, said he had been encouraged by the meeting with Mr Mubarak because it indicated that a dialogue with the ruling NDP was possible.

Sudan agrees loan with IMF

By Alan Mackie in Khartoum

SUDAN has reached agreement with the International Monetary Fund (IMF) on a one-year standby credit.

The loan, which is for SDR 198m ($172m) becomes operative on November 1 and will enable Sudan to proceed with its debt rescheduling programme.

The Minister of Finance and Economy Mr Badr El-Din Sulaiman, has approved a rescheduling package prepared by UK banker Morgan Grenfell for $425m of commercial debt and will now concentrate on concluding the second round of the club of Paris negotiations on rescheduling Sudan's institutional debt.

Mauroy seeks to quell anger at congress

BY DAVID HOUSEGO IN VALENCE

M PIERRE MAUROY, the French Prime Minister, sought over the weekend with other leading members of the Socialist Party to calm anger at the party's victory congress here against those believed to be undermining the Mitterrand Government's nationalisation programme and other planned reforms.

He advocated caution, adding that "change needs time to be understood and accepted."

M Mauroy's theme was echoed by M Michele Rocard, Minister for the Plan and an advocate of social democrat policies, who warned that the French Socialist Government might fail unless the party was prepared for realism and compromise.

The Government was confronted with the constraints of a stagnant world economy and high interest rates, and in such circumstances it was pointless for it to become involved in a head-on clash with the Right and those opposed to change, he said.

M Rocard warned of the pitfalls of a deteriorating balance of payments, higher levels of borrowing and inflation. But radical solutions would lead to failure, he told delegates.

The speech was seen as re-establishing M Rocard's claim to a place in the front rank of the party's leadership, from which he has been effectively excluded since challenging M Francois Mitterrand as the Socialist candidate for the presidency more than two years ago.

Paradoxically, it was also seen as a bid to distance himself from the Government, to be able to offer a future alternative should present policies fail.

But although M Rocard and his followers—he has the support of nearly 25 per cent of Socialist deputies in the national assembly—have been taken back into the party's ruling executive bureau to present a united front, tensions in the party remain high.

In his winding up speech at the three-day congress yesterday, M Lionel Jospin, the party's General Secretary and a confidant of President Mitterrand, implicitly accused M Rocard of underhand behaviour.

He chided him with failing to substantiate before congress a charge made in print that M Jospin had carried out "a cynical putsch within the party devoid of all principle."

In what seemed initially a radical Leftward shift, leaders and speakers from the floor called for retaliatory action against bankers, businessmen and bureaucrats accused of blocking socialist reforms.

There was resentment that the full nationalisation of Paribas had apparently been defeated last week through the successful take-over bid for its Swiss banking subsidiary.

To delegates, the financial manoeuvring over Paribas aroused fears that the Left's political victory risked defeat at the hands of Right-wing financiers.

M Gaston Defferre, Minister of the Interior, accused bankers of not accepting the popular will. "It's them or us," he told cheering delegates.

Paribas pledge to Government

THE BOARD of Paribas, the banking and shareholding concern in the centre of France's heated nationalisation debate, has promised the Government that it will take "all necessary measures" to keep the group together, according to a statement by the Finance Ministry, David White writes from Paris.

The pledge follows the resignation of M Pierre Moussa as Paribas chairman last week in the middle of a takeover bid for the group's Swiss offshoot, and his replacement by his predecessor, M Jacques de Fouchier.

The Ministry said it has "every reason to believe" that in view of the declared stance of the Paribas board, the managers of the Swiss operation, Paribas Suisse, and of the important Belgian subsidiary Cobepa, would refrain from "making any irreversible gesture."

This warning refers to a rumoured plan for taking Copeba out of the Paribas orbit before nationalisation takes effect at the end of the year in the same way as Paribas Suisse. Cobepa is about 60 per cent controlled by the Paribas group, but Paribas Suisse is reported to have increased its shareholdings in the company.

The bid for Paribas Suisse launched by Pargesa, an international consortium which includes some of the French bank's foreign associates, officially closes at midday today. But Pargesa announced last week that it already had more than 50 per cent of Paribas Suisse shares.

Two last-ditch possibilities for pulling Paribas Suisse back into the nationalisation net were still being mentioned yesterday. One would involve an attempt to make the deal void by proving that the sale of Paribas assets had been made without board approval. The other would involve a last-minute counter-bid by Paribas for control of the Swiss operation. This idea, while theoretically more feasible, would however be extremely costly.

The French Finance Ministry accused the previous top management of Paribas of "manoeuvres" which were kept secret from the rest of the board, as well as from the Government's representative in the company. It said this was the reason for M Moussa's sudden resignation.

Polish debt signing likely to be delayed

By Peter Montagnon, Euromarkets Correspondent

SIGNATURE of Poland's commercial debt rescheduling agreement with Western international banks could be delayed beyond the target date of December, according to bankers who follow the country closely.

The delay would result from Poland's inability to meet some of the conditions of the agreement as early as the agreed December 10 deadline, they said. In particular several bankers doubt whether Poland will be able to bring all the interest payments due on its foreign debt up to date by then. In some cases interest payments are now up to three months late.

Another problem is that Poland must have a detailed economic recovery programme in place by that date.

Delaying signature of the agreement would be undesirable given the need to start talks quickly on terms for rescheduling 1982 maturities. These talks will begin only after the 1981 obligations have been formally rescheduled.

But Western banks, who collectively have about $17bn in loans outstanding to Poland, are still prepared to show considerable patience and understanding.

Today is the final date for the 460 banks with debt outstanding to Poland to reply formally to that country's request for a debt rescheduling along the lines agreed with its leading bankers in Vienna last month.

Christopher Bobinski adds from Warsaw: The Polish Communist Party leadership has confirmed it is still hoping to bring more non-party members into the Government to provide the authorities with sorely-needed credibility and to deflect calls for free parliamentary elections.

Mr Kazimierz Barcikowski, a leading Politburo moderate said in Poznan at the weekend: "We want to talk to everyone who recognises the socialist system" and he spoke of "changes in the Government which would create a coalition of all those social forces which are for socialism."

He also mentioned widening the National Unity Front, an umbrella organisation which in the past has put up candidates for Parliament. Mr Barcikowski's speech comes on the eve of a crucial week for the new party leader, General Wojciech Jaruzelski.

Solidarity has called a national one-hour long stoppage on Wednesday in support of demands for improved food supplies, a halt to harassment of union activists, and greater control over economic policy.

Setback for race reforms

By J. O. F. Jones in Johannesburg

THE SOUTH AFRICAN Government has rejected a request to reverse its policy of racial segregation in two key urban areas, in what is seen as a setback to hopes of reform.

Resettlement of coloured (mixed race) people from the District Six area of Cape Town, and Indians from the Pageview suburb of Johannesburg, will go ahead to make way for new all-white residential areas.

The plea for a change of heart came from the President's Council, the multi-racial body set up by the Government in place of the former all-white Senate to make recommendations on constitutional reform. Its rejection is therefore a particular blow to those hoping for moves toward reform coming from within the ruling National Party establishment.

In its first specific recommendation, the Council had proposed that as much as possible of District Six be returned to the coloured community, although most of the picturesque and historic houses in the area, under Table Mountain, have already been destroyed.

Sr Felipe Gonzalez

Gonzalez moves to broaden party

BY ROBERT GRAHAM IN MADRID

SR FELIPE GONZALEZ, the Spanish Socialist leader, has said that he is willing to include independent candidates in the party's list at the next General Election.

This is the first time that the Socialist leader has made such an unequivocal statement about broadening the base of his party. His comment came at the close of its 29th congress and at a moment when the ruling Union de Centro Democratico (UCD) continues to be wracked by internal differences.

In the wake of last week's elections in Galicia, there are signs that Spanish politics is beginning to change. The poll saw a sharp swing to the Right-wing Alianza Popular and a decline in the votes of the UCD.

There is now talk of a broad Right-wing coalition that would include the UCD. If this were to happen, UCD would cease to be a centre party and elements within it, especially the Social Democrats, would almost certainly leave and become potential allies of the Socialists.

The Socialist Party congress, which ended on Saturday, saw Sr Gonzalez bitterly attacking the Government, suggesting that the consensus that had existed since the abortive February military coup had been broken.

In particular, Sr Gonzalez was scathing about the sacking on Friday of the director-general of the national television network, which broke an informal understanding that television should be controlled on a bi-partisan basis.

Zia sets up political body

BY DAVID DODWELL IN ISLAMABAD

GENERAL ZIA UL-HAQ, President of Pakistan, will appoint a Federal Advisory Council next month to act as a Parliament and to lay down Pakistan's future political framework.

Gen Zia said at the week-end that there had been some delay in forming the council but insisted that this had been necessary so that he could choose the "right people from all sections of society."

The council will comprise over 300 people, chosen by the President and drawn from provincial councils, the professions, and the trade unions. It will advise the President on how the country should be governed after taking advice from the Council for Islamic Ideology. the Ministry of Law, add some Cabinet members. Its exact powers have not been defined.

The move reflects the President's keenness to re-establish some kind of popular involvement in Government. It also reflects his failure of his martial law regime to win support from leaders of the country's established political parties.

Safety measure rejected

BY IAN HARGREAVES IN NEW YORK

THE U.S. Government has decided that it will not force carmakers to install the controversial air bag as a safety alternative to seat belts, after a sweeping review by the National Highway Traffic Safety Administration into industrial regulations threw out the idea.

Detroit, which has fought against the air bag idea immediately welcomed a change which will save it millions of dollars a year in capital costs and, even more important, prevent it having to install a $700 per car extra which would have boosted prices at a time when customers are showing stiff resistance to buying cars.

Thebair bag system involves a shock sensor releasing high pressure gas into a sack beneath the car dashboard. Front seat passengers are then automatically punched back into their seats and protected.

Although the system has worked well in tests, the industry and the bag manufacturers were worried about such issues as who would be liable for accidental bag inflation, which could cause a crash.

North and South make an 'honorable agreement' to keep talking

Success and failure at the Cancun talks

BY REGINALD DALE AND WILLIAM CHISLETT IN CANCUN, MEXICO

NO INTERNATIONAL summit is a failure — virtually by definition. The participants invariably leave claiming success —if only to justify their trip to some exotic location to the people back home.

The 22-nation North-South Cancun summit which ended at the weekend proved no exception. World leaders ranging from the conservative President Ronald Reagan of the U.S. to the socialist leader Julius Nyerere of Tanzania claimed that the Cancun meeting between selected industrialised and developing countries, representing two-thirds of the world's populations, had been successful —even though it produced no concrete decisions.

Even Algeria, traditionally militant on development issues, said that the outcome, though not perfect, was "honourable."

The truth is that Cancun was both a success and a failure. The failure lay in the meeting's inability to agree on a formula to launch the new rounds of "global negotiations" on a new international economic order that the Third World had been demanding for the past two years—which should have been the main practical purpose of the meeting.

The success was that the informal Caribbean beachside gathering showed that the dialogue between rich and poor countries need not necessarily be conducted—as so often in the past—in an atmosphere of public acrimony, and that President Reagan now has a much better idea of what it is all about.

The only show of public anger came from Mr Pierre Trudeau, the Canadian Prime Minister and co-chairman of the conference with Sr Jose Lopez Portillo, the Mexican President. The key question of the next procedural step in the global negotiations had been begged, he said with some sharpness on Friday night.

One reason for his displeasure was that his own compromise proposals for carrying the talks forward had been turned down—ironically by the developing contries to whom he is sympathetic, rather than by the U.S. with which he differs sharply on development issues.

The inelegantly named "global negotiations" are seen by the developing countries of the South as the next campaign in the long, and in their view, largely losing war they have been fighting with the industrialised North to change the world's economic system.

At stake are not only the amount of resources—economic, commercial, financial and technological—that the North may or may not be prepared to transfer to the South, but also control over the post-war, U.S.-dominated institutions that run the world economy—the International Monetary Fund (IMF) and the World Bank in Washington and the General Agreement on Tariffs and Trade (GAT) in Geneva.

That is why what looks like a purely procedural wrangle over the forum for the global negotiations is so important. The developing countries want the talks to be held in the United Nations, where they have a big voting majority to push through the reforms they seek.

The U.S. and other Western countries like the UK, Germany and Japan want the negotiations, if they have to take place at all, to be confined to the existing institutions, where the West is in control.

One senior U.S. Administration official was asked whether the "success" of Can cun in U.S. eyes lay in the slight shove forward it had given to "global negotiations," which were unanimously endorsed in the Presidential summing-up, or in the fact that it had killed them stone dead, as some people in Cancun believed.

The answer he said, was "both."

What that means is that "global negotiations" are only going to take place on U.S. terms. There is no point in conducting negotiations without the U.S. The difficulty is that any negotiation Washington can accept is hardly likely to qualify for the description "global" to which the Third World is committed.

The implications of Mr Reagans conditions was that the negotiations would not turn out to be "global" but would be more like a continuation of existing discussions in different world bodies. Nothing much, in effect, would change.

President Reagan (left) greeted by President Portillo of Mexico

The U.S. position at Cancun nevertheless represented an inching forward and that was recognised by the developing countries. At July's Ottawa summit of the seven leading Western industrial powers the U.S. committed itself to joining preparations for global negotiations.

Although the developing countries still do not think the U.S. has come far enough, they see that Washington is getting more and more involved in the negotiating process — and therefore putting itself in a position where it will either have to make concessions or risk a major political defeat by pulling out of the whole exercise.

The failure to agree is not the end of the affair. Informal contacts are to start in the UN in the near future to see if there is a way of salvaging the "global" talks.

The U.S. is confident that the nature of the debate has now changed. The developing countries are no longer, privately at least, demanding massive transfers of resources from rich to poor countries as a matter of principle. They are concentrating instead on nuts and bolts means of promoting development, in fields like food and energy.

They are, at least in the eyes of the Reagan Administration, beginning to accept the virtues of private enterprise and self-help. Several countries in Cancun drew attention to the recognition in the joint Presidential summing-up that food aid, except in emergency, was no substitute for increased agricultural efforts by the developing countries themselves.

But the U.S. cannot endlessly play for time. Algeria said in Cancun it had come close to calling off the whole dialogue and gave the informal talks in the UN two months to succeed.

Cancun, it was generally agreed, will not be repeated. But whether its soul goes marching on will depend on the developing countries. Either they pick up what little there is on the table and press for more, or they have to return to the politics of confrontation. It is a choice that is not unfamiliar to them.

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Nigeria plans to relax investment restrictions

BY MARK WEBSTER IN LAGOS

THE NIGERIAN Government, anxious to foster fresh investment, is to make it more attractive for local companies with foreign shareholdings to invest in new enterprises.

Planned changes in the law will have the effect of interpreting more liberally the demand for a domestic shareholding of at least 40 per cent.

Amendments to the law were awaiting legal drafting before being placed before the National Assembly, Mr Mallam Adamu Ciroma, the Minister for Industries, said. But he warned of delay because of the backlog of work before the legal draughtsmen.

Under the present law, even if a company has a majority Nigerian shareholding, it is considered a foreign company for the purpose of new investment. Manufacturers maintain this is a major disincentive for new investment.

Thus a 60-per-cent Nigerian-owned holding company would be allowed only a minority stake in any new company it sought to set up.

The amendments will change this so that the existing Nigerian holding in a parent company will be taken into account when authorities handle applications for new investment. It should thus be possible for a parent company to keep control of new companies it sets up.

The new law will take account of the Nigerian holding in the mother company on a pro-rata basis when the equity is settled for a new company, Mr Mallam Ciroma said.

In a move marking the first steps towards a domestic arms industry, Nigeria has awarded an Austrian company a $60m contract to build armoured personnel carriers in Nigeria, Reuter reports. The deal, with Steyr-Daimler-Puch, provides for an assembly plant to be completed by 1983 to produce some 200 armoured vehicles and 500 other military vehicles annually.

India likely to end Jaguar deal

BY K. K. SHARMA IN NEW DELHI

THE INDIAN Defence Ministry is expected to inform British Aerospace of its decision to prematurely terminate the £1bn contract on the Jaguar now that the country has concluded a deal with France for the purchase and manufacture of the Mirage 2000.

India was to buy 40 Jaguars outright from British Aerospace. It would also have imported 45 in knocked down condition for assembly in the Bangalore factory of Hindusthan Aeronautics and manufacture about 80 more aircraft in Bangalore.

It is now proposed to limit the contract to the first two phases and to drop plans for the manufacture of the Jaguar in India. Instead, it has been decided to manufacture the Mirage 2000.

Four squadrons of the Jaguar are thought to be sufficient to meet the immediate needs of the air force until the Mirage 2000 becomes available from 1984.

The Mirage will be supplemented by the MiG-23s that are also to be manufactured in India under licence from the Soviet Union, which has also offered similar terms for the more sophisticated MiG-25.

The Indian Government now has to decide whether the air force should be equipped with both the Mirage 2000 and the Interceptor version of the MiG-25 which the Russians have offered. The advantage of the MiG-25, of which the reconnaisance version is already flying with the air force, is that it will be available immediately.

It is possible that India will still acquire some MiG-25 Interceptors even though the deal with France on the Mirage 2000 has been finalised. But plans to manufacture the MiG-25 in India may be dropped.

The Indian Air Force flies a number of Soviet aircraft, including the MiG-21, the MiG-21-bis, the MiG-23, the MiG-25 and the Sukhoi bomber.

SHIPPING REPORT

Slight rise in U.S. grain rates

BY ANDREW FISHER, SHIPPING CORRESPONDENT

LAST WEEK saw little improvement in freight rates, though there was a modest upturn on the grain side from the U.S. Gulf to Europe.

According to Denholm Coates, grain rates edged up to around $11 a ton, with some signs of shortage of Panamax vessels.

Elsewhere, there was very little rate movement, although some business has been fixed out of the Great Lakes. Rates in the Pacific/Australia/India area remained "abysmal," it added.

Tanker business was fairly active. But with demand still too low to fill all the tonnage around, rates have shown almost no change.

E. A. Gibson noted that demand for large vessels from the Arabian Gulf was quite consistent last week. Rates did appear to be on the way up, but then settled down at a mere Worldscale 21/21½ for VLCC (very large crude carrier) tonnage, with a premium of six or seven points for the Far East.

On the sale and purchase market, conditions were sluggish, according to Galbraith Wrightson, but multi-purpose and small container ships have continued to find buyers.

The bulk carrier market remained depressed, while there have been no major sales of ships for demolition and this market has become almost inactive.

● A floating dock, which will significantly increase maintenance capacity for Mozambican ships, will arrive shortly in Maputo, to be installed as part of a complex which will include a repair ship and a vessel for housing technicians to operate the complex, agencies report from Maputo.

The new equipment comes from the Soviet Union which will provide 70 technicians to run the complex. They will eventually be replaced by Mozambicans.

The repair complex will be able to handle ships of up to 130 metres in length. Until now Mozambique's coastal ships have been repaired in other countries. The complex will also be able to handle repairs for foreign ships.

World Economic Indicators

UNEMPLOYMENT

		Oct. '81	Sept. '81	Aug. '81	Oct. '80
U.K.	000s	2,988.6	2,998.8	2,940.5	2,062.9
	%	12.4	12.4	12.2	8.5
		Sept. '81	Aug. '81	July '81	Sept. '80
USA	000s	7,966.0	7,657.0	7,502.0	7,827.0
	%	7.5	7.2	7.0	7.5
		Aug. '81	July '81	June '81	Aug. '80
France	000s	1,746.1	1,680.5	1,625.5	1,374.3
	%	7.7	7.4	7.2	6.1
W. Germany	000s	1,288.9	1,246.2	1,125.7	864.5
	%	4.9	4.8	4.3	3.3
Italy	000s	1,918.5	1,923.4	1,924.4	1,695.6
	%	8.6	8.6	8.6	7.6
Netherlands	000s	407.0	396.4	360.1	261.5
	%	7.8	7.6	6.9	5.0
Belgium	000s	513.4	495.5	432.9	416.7
	%	12.6	12.2	10.7	10.3
Japan	000s	1,150.0	1,210.0	1,260.0	1,150.0
	%	2.0	2.1	2.3	2.1

Source (except UK, U.S., Japan): Eurostat

UK credit package secures Davy deal

By William Chislett in Mexico City

BRITAIN yesterday granted Mexico a substantial aid and credit package to secure a £200m contract for Davy Loewy of Sheffield to build a steel plate mill in Mexico.

Mrs Margaret Thatcher, the Prime Minister, signed a memorandum of understanding in Mexico City with Sr Jose Lopez Portillo, the Mexican President, which committed the British Government to making available to Mexico up to £35m in grant aid and an *export credit for £195m* for the steel project.

Mrs Thatcher attended the signing ceremony on her way back to London from the Cancun north-south summit in Mexico.

The financial package played a key part in the Mexican Government's decision earlier this month to award the steel contract, the largest ever to tender, to Davy Loewy.

Davy Loewy's £200m share of the total contract, worth about £340m, with the balance contracted in Mexico, is more than the UK's total exports of £188m to Mexico in 1980.

Davy's Mexican deal comes hard on the heels of the massive £1.25bn contract awarded to the same group to build a steel plant in India.

The Mexican project aims to provide a mill to produce 1.5m tonnes a year of steel plate at the Sicartsa complex on the Pacific coast.

Davy Loewy, the manufacturing arm of the Davy Corporation, beat competition from a Japanese consortium headed by Mitsubishi, a Franco-West German consortium with Creusot Loire and Schloemann and Sachs and a U.S.-Italian consortium of Mesta (U.S.) and Italimpianti.

Michael Donne examines the problems of the air transport industry

Airlines fight to keep up with costs

IF ANYONE had wondered why the world's major airlines are so reluctant to cut their fares in response to government and consumer pressures, the reason is clearly stated in the latest annual report on the state of the world air transport industry by Mr Knut Hammarskjold, director-general of the International Air Transport Association.

Last year, he says, was the worst ever for air transport; this year looks like being just as bad, if not worse; and he holds out little hope of any significant revival in the airlines' fortunes in 1982.

The airlines' problem is not so much that people do not want to fly because of the recession—*last* year passenger traffic carried by the 111 member-airlines of the IATA declined by only 2.9 per cent to 374m, while for the world as a whole, scheduled airline passenger traffic fell by only 0.5 per cent to 734m (including the 100m or more carried in the Soviet Union and the 296.7m carried in the U.S.).

These declines are not dramatic, although they are sufficient to hurt an airline industry more accustomed to annual growth rates of up to 10 per cent or even more.

The airlines' worst problem is that costs continue to rise at a much faster rate than revenues. During 1980, the IATA members' revenues rose by 23 per cent to $60.8bn (£33.28bn), reflecting fares rises on many routes introduced to combat rising costs. But operating costs—fuel, labour, landing fees, navigation charges and so on—went up by 25 per cent to $61.8bn (£33.83bn).

The result was a deficit in 1980 of $1bn, which was increased to more than $1.1bn when non-operating items, such as interest on loans, is taken into account.

Mr Hammarskjold says that the airlines should have earned last year at least another 2.5 per cent in revenues just to cover their costs. They needed another 2.7 per cent to cover interest payments on the big new fleets on order, but yet another 8.2 per cent was needed beyond that to meet all the other financial commitments, such as taxes, and to provide some return on capital invested.

The airlines were thus about 13.4 per cent below what they needed to make even the bare minimum of profit.

The North Atlantic route, now estimated to be losing the airlines more than $500m a year, is described by Mr Hammarskjold as "a financial haemorrhage." The IATA airlines should have earned at least another $17 on every $100 earned in 1980 in order to make any profits on that route, he says.

The most disturbing trend is that many other major world air routes are now going the same way financially as the North Atlantic.

These routes included those between Europe and the Middle East, Europe and the South-West Pacific and on the South Pacific between the U.S. and Australasia. "Even on services within Europe," says Mr Hammarskjold, "the airlines failed to cover their operating costs in 1980."

The contributing factors included exceptionally high government and airport charges for landing fees and en route navigation; the excess mileage flown by airlines because of "devious"—and in the IATA's view, often unnecessary—air traffic control routeings; industrial conflicts—and especially the highly damaging UK air controller's dispute this past summer and that in the U.S.—besides the overall impact of the economic recession itself.

To try to get out of this complex mess, Mr Hammarskjold says the airlines can only bring down their costs, and increase their revenue yields, thus improving their "break-even load factors" — increasing the proportion of seats sold in their aircraft.

The quickest way to increase revenue yields is to raise fares, and the airlines are becoming increasing hostile towards government and consumer pressures for fares reductions, which they believe to be unrealistic in the present economic climate.

It seems likely that over the next few weeks, there will be pressures inside the IATA for substantial fares rises internationally from either early next year or in the spring.

At the same time, there will be pressures on governments to allow faster airline reaction to rises in fuel and other costs. The airlines says that at any one time, they are collectively running $1bn behind rises in fuel costs alone — the fuel price rises have to be paid immediately, but getting compensatory fares rises can take many months.

The fact that this sum is equivalent to the current annual operating deficit being incurred by the airlines is significant. If the governments allowed immediate fares rises when fuel prices rose, say the airlines, their own cash position would be radically transformed.

Boeing seeks expansion of credit supply

BY IAN HARGREAVES IN NEW YORK

THE U.S. aerospace industry, in an effort to find a long-term solution to the international war in Government-backed export credits, has developed a plan to return export financing of aircraft to the private sector.

Mr J. B. L. Pierce, treasurer of Boeing, made the first sales pitch for the proposed system to a conference of leading financial executives in New York last week.

He urged them to return to their home countries and put pressure on politicians and bureaucrats to launch the so-called "international equipment trust" proposal, which he predicted would stimulate depressed aircraft sales and smooth the road for an estimated $122bn of aerospace trade in the 1980s.

Mr Pierce said the issue had become more urgent as the next generation of aircraft, including the Boeing 767, will be produced by international consortia, rather than the traditional, single, country manufacturer.

Because technological standards are so close between the U.S. airframe manufacturers and Airbus of Europe, there is a danger, Mr Pierce argued, that aircraft sales, regardless of which nation introduces them, will be determined purely on the basis of ease of financing.

The Americans also feel that under the terms of the existing international accord on export credits—due to expire next September (the so-called "standstill agreement" of 1975)—world trade in aircraft is being supressed. Their main complaint is the 10-year maturity limit on guaranteed loans, which they consider inadequate for financing a capital asset with a useful life of 15 to 20 years and a good historic record of maintaining resale value.

Leadership duel by Plaid Cymru MPs

BOTH WELSH Nationalist MPs will contest their party's leadership this week after an intense political debate in the movement.

Delegates at Plaid Cymru's annual conference have to elect a president to succeed veteran nationalist Mr Gwynfor Evans—a choice which will help to determine how the party tackles the problem of revising its appeal among voters in Wales.

The party's current vice-president, Mr Dafydd Elis Thomas, who is MP for Merioneth and has views on some issues close to Labour's Left, is being opposed in a straight fight by his Westminster partner, Mr Dafydd Wigley (Caernarfon), a more traditional nationalist who recently rejected overtures to join the Social Democratic Party.

Supporters in both camps have forecast a close result, although Mr Wigley has more nominations from constituency committees. Plaid Cymru has never returned more than three MPs from 36 Welsh seats, and there are widely differing views inside the party on the best way forward.

Mr Thomas, 34, who has taken an increasingly socialist stance, claims the party must take a new course itself in order to appeal to trade unions and the traditional Labour areas of industrial South Wales. Failing this it would slip back to be a marginal party with less than 8 per cent of voters' support.

He sees parallels for the party's proper direction in the Leftward trend of the Scottish National Party and has recently been a speaker at meetings north of the border.

Clash looms on posts for Bennites

BY ELINOR GOODMAN, LOBBY CORRESPONDENT

AN ARGUMENT appears likely this week at the first meeting of Labour's new national executive committee over the membership of its key sub-committees.

Moderates are claiming that the list of proposed members for the home and organisation committees, sent out confidentially to NEC members last week, takes no account of the losses incurred by the left in last month's elections for the executive. They say it effectively leaves Mr Tony Benn and his supporters in control.

Trade unionists on the executive are believed to have drawn up an alternative list of members in an attempt to ensure that even if Mr Benn is allowed to continue as chairman of the home policy committee, its majority will not be made up from his supporters.

On Wednesday, at their first meeting since Labour's crushing defeat in last week's Croydon North West by-election, NEC members no doubt will do all they can to present a united front against the Social Democratic Party. But some right-wingers on the executive are saying that it will be impossible to fight the SDP effectively if Mr Benn and his supporters are allowed to remain in positions of power.

The NEC's sub-committees are important because they can both originate policies and act as a powerful block to change. Mr Benn has used his position as home policy chairman to great effect in the past. When the results of the NEC elections were first announced, the right assumed that Mr Michael Foot, the party leader, would go along with moves to oust Mr Benn from this job.

Since then Mr Foot, in attempting to bring Mr Benn back into the fold, has said he would prefer him to stay on in that post as well as standing for the Shadow Cabinet. He has also implied he would be happy to see Mr Eric Heffer—in the past one of Mr Benn's most reliable allies on the executive—stay on as chairman of the organisation committee.

Right-wing MPs, along with the moderate trade unionists on the executive, have already warned Mr Foot that they will not go along with this strategy without a fight. But their efforts to unseat Mr Benn have been hampered by the difficulty of finding an alternative candidate capable of winning election as chairman of the home policy committee.

The further setback came last week when Mr Ron Hayward, general secretary of the party, circulated the list of proposed members for the committees. On both the home policy and organisation committees, the membership was practically identical to that before last month's NEC elections, when five left-wingers lost their seats.

Since the sub-committees elect their own chairman, Mr Benn would be almost certain to take the home policy post if the proposals go ahead.

The members of the sub-committees are chosen from those who put their names forward, on the basis of seniority. The selection is carried out in the first place by Mr Hayward, who draws up a list for approval by the NEC. This year, however, his proposals look likely to be challenged.

The right is particularly anxious to achieve control of the organisation committee, which has to deal with the sensitive question of what to do about the far left Militant Tendency.

Crosby's Tories keep their chins up

IAN HAMILTON FAZEY takes a look at how local Conservatives smile bravely despite an ominous opinion poll verdict

CROSBY'S Conservatives appear to have had an unperturbed weekend, despite some news that burst on them at 10.50 on Friday night. That was when Granada TV's local political programme concluded a profile of the constituency with the first opinion poll of voting intentions in the forthcoming Parliamentary by-election.

The figures—from a sample of 585 taken by MORI on Friday, hours after the Liberal-SDP Alliance victory in Croydon—showed that 38 per cent intended to vote for the Alliance; 35 per cent intended to vote Conservative; Labour would get 26 per cent.

Mrs Doreen Wright, the Conservatives' chairman, took the news in her stride and got on with running Saturday's fund-raising sale-of-work.

She said yesterday: "What do you expect when the Government is in mid-term and everyone has the previous night's by-election result on their minds?"

In any event, she said, the Alliance is helped at the moment by already having adopted a national figure, Mrs Shirley Williams, as its candidate, while the other parties have not yet selected theirs. This appears to be reflected in another result from the Granada-MORI poll.

When asked how they would vote if Mrs Williams was not the Alliance candidate, the Conservatives emerged as leaders, with 37 per cent. The Alliance had 32 per cent and Labour 31 per cent.

Mrs Wright feels that this may be a fairer reflection of what the position might be with three named candidates in the field — although it overlooks the fact that Mrs Williams is the candidate.

In the general election, when Sir Graham Page held the seat for the Conservatives with a 19,272 majority, he won 57 per cent of the vote, with Labour and Liberal trailing with 25 per cent and 15 per cent respectively.

The Conservatives, dug in behind their vast majority, are expecting to see it damaged but not destroyed. Tomorrow night they will elect their selection committee to deal with the hundreds of applications for what has been a lifelong seat.

Labour, whose delegates were mandated to vote for Mr Tony Benn at the party conference, will select its candidate next Sunday.

Mr Jim Hulligan, the constituency party secretary, says Crosby's electors are not going to be taken in by Alliance "razzamatazz" as he feels people were in Croydon.

Mr Scott Donovan, a former member of the Crosby Labour Party and now SDP chairman, however, clearly has the scent of blood—and not just that of the Conservatives.

He and Sir Trevor Jones, Liberal leader of Liverpool city council, believe there is a strong chance Labour might lose its deposit at Crosby.

On Thursday night in the Maghull part of the constituency, the Conservatives lost a borough council by-election to the SDP, while down the road in Bootle Mr Donovan severely dented a safe Labour majority, while beating the Conservatives into third place.

Crosby, Maghull and Formby comprise a parliamentary division—just north of the city of Liverpool itself—where 70 per cent of homes are owner-occupied and only 11.5 per cent are council houses.

Many of the home-owners, particularly in Maghull, have moved out of Liverpool and Bootle, where their parents probably voted Labour.

The biggest proportion of voters, 35 per cent, are aged between 25 and 44, with 31 per cent between 45 and 64, so unemployment and mortgage rates are going to occupy a lot of attention.

While Mrs Shirley Williams's views on private education will stop her converting many Conservatives, the Alliance is going to point out that the aspirations of young middle-class parents in that direction have not been helped by the effect of government economic policy on real earnings.

Meanwhile, Mrs Wright remained unperturbed. She said: "I just cannot see a majority of 19,000 going somewhere else.

"Crosby is not Croydon. Very few of the people who live here are merely passing through. This is a largely homogenous, stable, middle-class constituency that is traditionally Conservative."

Which is what Orpington was 20 years ago.

Breakaway MP may go over to SDP

BY OUR LOBBY STAFF

MR JOHN GRANT, the MP for Islington Central who told his local party last week that he did not want to stand again as their Labour candidate, may join the SDP. It is one option he is considering following his decision to break with Labour.

Mr Grant, who at the weekend resigned his job as an Opposition front-bench spokesman on employment, is unlikely to make up his mind immediately. But he has already been approached by the SDP who would regard him as a valuable recruit and is likely to do all it can to woo him.

He has told it that he has no definite plans, and that he may decide to leave politics altogether. But it was clear from the statement he issued to his party last week that, on some major issues, like the EEC and defence, he is already in broad agreement with the SDP.

Mr Grant, who has been MP for Islington for the last 11 years, told his party last Wednesday night that he did not want his name to go forward for reselection. He said he did not want the news to be released immediately because it might influence the outcome of the Croydon by-election the following day. In the event his decision appeared, much to his embarrassment, in Thursday's papers.

Yesterday he issued the full text of his statement to his local party. It amounted to a detailed rebuttal of the claims of Labour moderates that, as a result of last month's party conference, there was now a real chance of turning the tide against the far Left.

He said he was not prepared to bow to "local dictats." Although the extremists within the Labour Party had been "rebuffed" at last month's party conference, the "major damage had already been done." There was no real prospect of reversing the damage, he maintains.

Moreover, it was unlikely that the Parliamentary Labour Party would lead a fightback. He said it was disturbing to hear MPs who "rightly" criticised Tony Benn for splitting the party wide open, now talking of supporting him for the shadow cabinet if he stood. To do so "would be an act of craven appeasement, cowardice and hypocrisy."

Mr Michael Foot, the Labour leader, is expected to see Mr Grant this week in an attempt to persuade him to change his mind.

Another Labour MP who has been hovering on the verge of joining the SDP for the past few weeks, Mr Eric Ogden, seems to have put off an announcement that he was quitting the party.

Howell says Labour must put its house in order

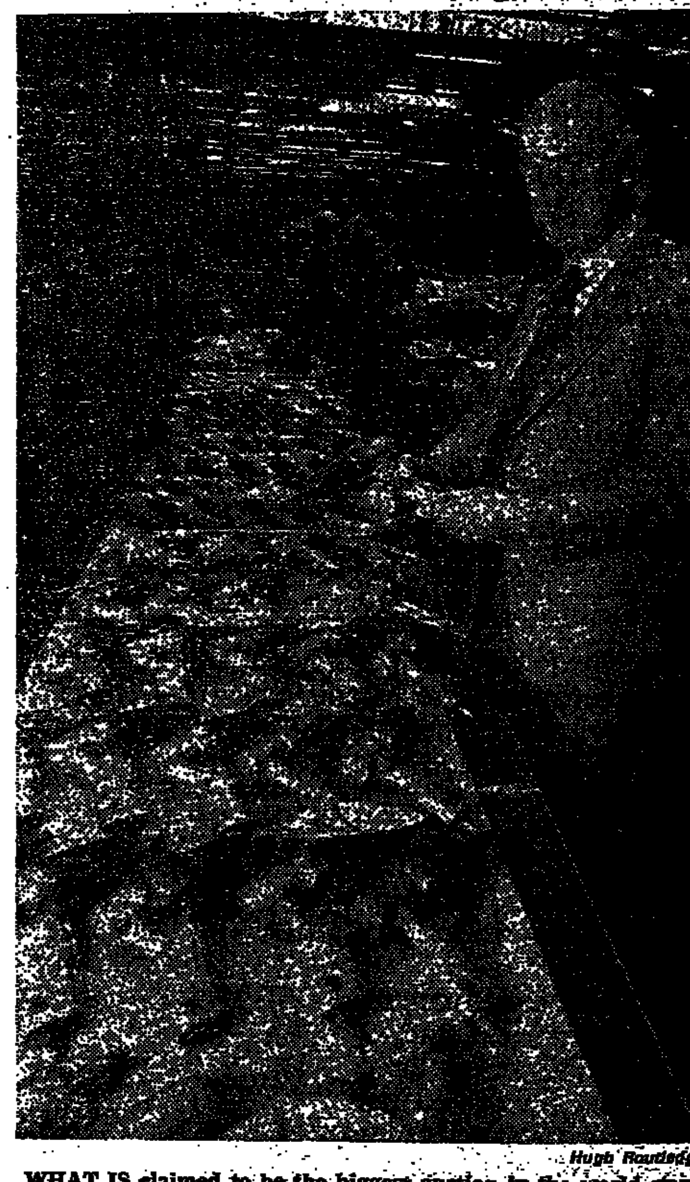
THE Social Democrats will remain a considerable attraction to voters until the Labour Party puts its house in order, Mr Denis Howell, Opposition spokesman on sport, said yesterday.

"The writing on the Croydon wall is very plain. The people resent the extremism of the Thatcher Government but they have no intention of replacing that by what they believe to be another dose of extremism from Labour. No one should be surprised," he said.

Mr Howell was speaking to a meeting in his Birmingham, Small Heath, constituency. He said this was the same sort of message which the rank-and-file members of two large trade unions, the Transport and General Workers and the National Union of Public Employees, delivered to their leadership, which had intended to support Tony Benn in the recent deputy leadership contest.

"In recent times the militants have hijacked many of the constituencies and most certainly do not represent the mass of Labour members and supporters. They have also had some successes in the unions."

Labour's recent Brighton Conference had seen the first steps in the return to moderation. "The new national executive now has the urgent duty to protect the integrity of the party and to remove decision-making from elitist and unrepresentative hands and to trust the broad mass of Labour voters and members."



Hugh Routledge

WHAT IS claimed to be the biggest auction in the world starts on November 16 when the contents of Talbot's Linwood car plant on the outskirts of Glasgow come under the auctioneer's hammer.

Mr Peter Harriman, a partner in Henry Butcher, which is conducting the auction, examines one of the compressed-air powered drills which will be part of the sale.

Playboy chief earns £143,000

WHEN ADMIRAL Sir John Treacher went to work at the Playboy Club in July, he was reluctant to say how much he was being paid. "All I can say is that I shall work very hard to justify the sum" was, indeed, virtually all that Sir John then said.

The sum in question is disclosed on page 307 of Playboy Enterprises' annual report to the Securities and Exchange Commission in Washington, filed on September 28. Sir John's "base salary" as chairman and managing director of its UK operations is £143,000 per annum, but from July 1 next year he will be eligible for additional "incentive compensation" of up to £64,350 (45 per cent of his base salary).

Moreover, Playboy Clubs International paid Sir John $100,000 "as an inducement to enter into the arrangement" which provides for a three-year term of employment with annual renewals.

The annual report analyses the sources of Playboy's pre-tax profits, showing that the UK gaming interests are crucial to its profitability. In the year to June 30 UK profits, mostly from casinos, amounted to $40.4m (£22.18m). Yet the total for the group was no more than $25.4m. The difference of $15m is more than accounted for by nearly $19m of administration and promotional costs, as well as $5.1m losses in clubs and hotels, and $1m written off Playboy's investment in the Atlantic City Casino venture.

Move to start three-way talks on Irish links

A PLAN for politicians from London, Dublin and Belfast to hold official talks will be examined at next month's Anglo-Irish summit between Mrs Thatcher and Dr Garret Fitzgerald, the Irish Prime Minister.

The meeting will be in London, probably in about ten days' time. Before that Mr Prior, the Northern Ireland Secretary, is expected to visit Dublin to see Dr Fitzgerald

The proposed inter-Parliamentary organisation would have no executive powers, but could suggest ideas or initiatives thought helpful in the Ulster and Anglo-Irish context. Members will be drawn from the British and Irish parliaments — and possibly from the European Assembly.

'Political education' plan for schools challenged

THE Labour-controlled Inner London Education Authority's plan to make a 35-year-old councillor responsible for political education in Inner London's 1,000 schools will be opposed tomorrow by Conservatives although they are likely to be heavily outvoted.

Prof David Smith, the Tory leader, pledged yesterday the post would be scrapped immediately the Tories returned to power at the Greater London Council.

The Tories' bid to stop Mr George Nicholson, GLC member for Southwark, being appointed the authorised member responsible for political education will come in a debate at an ILEA education committee meeting.

Last month the Tories forced a delay in the appointment. Tomorrow they will vote against the Labour group's move to approve it formally.

The Tories have tabled a two-part motion. This says it is authority's education officer, to member to be given responsibility for development of political education in the schools.

The motion seeks to instruct Mr Peter Newsam, the authority's education office, to prepare for discussion a paper on "education for citizenship."

Prof Smith said yesterday that since the ILEA Labour group plan was revealed last month, parents and teachers he met had expressed considerable disquiet.

"We recognise the need for political education but this is an area of the curriculum which should be part of the normal responsibility of the inspectorate, reporting to the education committee," Prof Smith said.

Boom economy by 1983 forecast by researchers

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

ECONOMIC ACTIVITY will pick up sharply next year and accelerate to a boom in 1983 and 1984, a Liverpool University research group says in its latest forecast.

In its quarterly forecast the group is substantially more pessimistic, however, than it was in its June bulletin about the prospects for this year and next.

It expects this year's output to fall by 1.3 per cent, compared with a 0.5 fall forecast earlier. Its inflation prediction has also been revised upwards, slightly, to 11.3 per cent this year and 7.6 per cent next year.

The group, the most optimistic of the better known forecasting units, expects a growth rate in gross domestic product of 4.5 per cent by 1983. This would be one of the fastest since the Second World War. This, it believes, will be combined with inflation reduced to 4 per cent and a substantial cut in unemployment.

Nevertheless, one of the forecast's gloomier aspects is its suggestion that, even when the economy is at its fullest industrial capacity, unemployment will stay at about 2m.

The group's more pessimistic view of prospects for this year and next stems from the rise in interest rates and the fall in sterling. The lower value of the pound, it says, will feed through into inflation in the immediate future.

It says: "This financial deterioration is likely to set back the recovery in output that previously seemed probable for the second half of this year and was gathering some momentum in the middle of the year."

This conclusion is broadly in line with that last week of the Economist Intelligence Unit, although the unit was much more pessimistic about the longer term prospects and did not expect inflation to fall to single figures before the next General Election.

Although this year's money supply target appears in disarray the Liverpool group says there is reasonable confidence the Government will be able to control public spending.

Indeed, it suggests the Government should announce Public Sector Borrowing Requirement targets in a new form. The PSBR is automatically higher in a recession (because less tax is collected and expenditure, on unemployment, for example, increases), and so the group says planning should be based on a cyclically adjusted PSBR.

It believes the best way to secure steady growth in the economy with low inflation would be to ensure the adjusted-PSBR figure is held to a rate of increase of less than 1 per cent a year.

The current discussions between spending Ministers and the Treasury about the need to contain public spending shows, however, that achievement of such a target would require political toughness.

The group acknowledges this by saying its projection depends on the assumption the Government will stick to its medium-term financial strategy. This envisages steady reduction in real public spending.

Quarterly Economic Bulletin, Department of Economic and Business Studies, Liverpool University.

THE LIVERPOOL FORECAST OCTOBER 1981

	1981	1982	1983	1984
GDP growth per cent	−1.3	2.5	4.5	4.2
Inflation per cent	11.3	7.6	4.2	5.2
Unemployment millions	2.5	2.7	2.3	1.9
Value of sterling index (1978=100)	124.3	115.4	113.0	111.6
Index of excess capacity	4.3	3.2	0.4	−2.0

Feuds inside Illingworth Morris come to a head

ANTHONY MORETON reports on a wool tangle to be sorted out at a special meeting today

THE CONVOLUTED affairs of Illingworth Morris, one of the world's leading wool textile concerns, will be taken a stage further at midday today when the annual general meeting and two extraordinary general meetings are held at the company's headquarters at Shipley, three miles from Bradford.

The company is effectively controlled by Mrs Pamela Mason, daughter of one of the company's co-founders, ex-wife of the film star James Mason and a former actress. She is now a television chat-show hostess in California.

Mrs Mason controls 46 per cent of the equity and for some time has fought a running battle with the executive directors of the company, especially Mr Donald Hanson, chairman, and Mr Peter Hardy, chief executive.

She has constantly clashed with these two and exercised her voting influence to appoint directors. Her son, Morgan, who is an adviser to President Reagan, is one.

Until Mr Casper Weinberger's appointment early this year as the U.S. Secretary of Defence, he was associated with the company.

Illingworth Morris is probably best-known to the public through its Crombie trademark, but that is only the tip of a very large pyramid.

The company employs about one in every 10 workers in the British wool textile industry, it is the country's biggest importing and processing company and biggest cloth exporter.

Its factories range from Gloucestershire through Yorkshire to Scotland. While its strength is at the top end of the trade, in cashmere, mohair and Scottish tweed, it also has a stake at the bottom end.

The row between Mrs Mason and the executive directors came to a head in the autumn and came to the courts when she proposed to replace both Mr Hanson and Mr Hardy.

A motion to this end was tabled by her for the annual meeting, which was to have taken place in Shipley on October 1, but the directors countered with a motion to remove both Mrs Mason and her son from the board.

Within this great row was another. Part of Mrs Mason's strength—27 per cent—came from a holding in Lothbury Investment Corporation where she acts as executor of her father's estate.

She proposed to throw the whole of Lothbury's voting weight behind her motion to replace the two directors, despite the fact that other relatives of hers who hold 40 per cent in Lothbury did not agree with her.

The annual and extraordinary meetings had to be held over until today because of a court hearing which proposed the winding-up of Lothbury.

There was also a motion before the courts from Mrs Isabella Blench, a half-sister of Mrs Mason, for a judicial trustee to be appointed to administer the estate of Isadore Ostrer, Mrs Mason's father.

When the winding-up order came to court on October 16, Mrs Mason surprised everyone by announcing that she had agreed to sell her share in Illingworth Morris, to Abele, an Isle of Man company in which Mr Alan Lewis, a Manchester financier, has a strong interest.

Mr Lewis is also chairman of the Anglo Manx Bank, a company licenced as a bank by the Isle of Man Government.

The arrangement was that Mr Lewis would buy 19 per cent of the equity and take an option—which could be exercised in six months—on the remaining 27 per cent. If he took up the option, he would have to make an offer for the remaining 54 per cent of the shareholdings held by others.

Because of this, Mrs Mason gave an undertaking in court that she would not pursue her motion to remove Mr Hanson and Mr Hardy at today's meetings. She further surprised everyone by reaching an agreement on the price of the shares with Mr Lewis which was considerably below that offered her in a package put together two months ago by Hill Samuel, merchant banker to Illingworth Morris.

But if nothing can happen today about Mrs Mason's motion, she herself can still be voted off the board. The counter-motions from the directors to replace her and her son can—and most probably will—be put. Whether she can vote her shares against such motions is a legal nicety.

Other moves are still to come—Mrs Blench's motion on a judicial trustee will probably be heard by the courts in about a month.

The convoluted battles which have boiled up into the courts cannot but have harmed the company, one of the greatest names in the wool textile world.

The whole British textile industry is facing agonising problems as it fights to keep a foothold in a world increasingly dominated from the Far East. And Illingworth Morris could well have done without the battles that have been fought around it in the past few months.

Ezra aims for 3m tonne increase in coal sales

BRITAIN'S pits are continuing to improve their productivity despite the recession, according to Sir Derek Ezra, National Coal Board Chairman.

So far this year coalface output had risen by about 6 per cent and overall pit productivity by more than 4 per cent, he told the National Union of Mineworkers' power group, representing 5,000 colliery craftsmen.

Sir Derek, speaking in Stoke-on-Trent on Saturday, said the industry's health and prosperity depended on performance increasing. Rising output was needed to contain operational costs and ensure coal's competitiveness.

This was essential to win a bigger share of the smaller energy market at home and to continue expanding coal exports—which had doubled for the third year running—against fierce international competition.

Sales safeguarded jobs, and that was why it was important to achieve this year's 121m tonnes coal sales target and, if possible, improve on it. This would mean selling at least 3m tonnes more than last year.

Welsh television spending plan

THE WELSH fourth television channel authority plans to spend about £5m a year purchasing programmes from independent producers, according to Sir Goronwy Daniel, its chairman.

The Welsh-language 22-hour service, due to come on air in a year's time, would create about 300 jobs directly and at least an equal number indirectly, he said.

A substantial number of programme-hours would come from independent producers located in Welsh-speaking areas of West and North Wales.

EEC Ministers to tackle textile imports today

BRITAIN WILL press for tough restrictions on textile imports when EEC Ministers meet in Luxembourg today. Protection is being sought for the hard-hit domestic industry against cheap Third World supplies.

The future share of the EEC marketplace for Europe's Third World textile partners is the key in deciding the Community's stand at next month's Geneva negotiations on the renewal of the Multi-Fibre Arrangement which governs international trade in clothing and textiles.

France, Italy and Belgium are supporting a move to cut import quotas, but West Germany, Denmark and the Netherlands are fighting for increases.

Britain also wants a recession clause built into any renewed MFA, under which Third World textile import levels could be reviewed again if Europe's textile sector runs into even greater economic difficulties than it faces now.

The move is firmly backed by the UK industry.

CBI urges wider tax concessions

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

TAX CONCESSIONS introduced by the Government earlier this year for new businesses should be extended to cover expanding small companies, according to the Confederation of British Industry.

The CBI is also repeating the call made last year for tax concessions for a new form of financial institution called a Small Firms Investment Company.

The proposals for increased Government support for small businesses are contained in a new edition of a CBI discussion document, Smaller Firms in the Economy, published today. The document says smaller businesses are playing a more significant role in the UK economy and there is a need for a greater understanding of their problems.

It contains a long examination of the rights and wrongs of Government intervention to help small businesses but concludes: "It is not possible to define clearly the priorities for Government in assisting particular groups of small firms.

"The Government's main role in assisting the sector may involve simply creating a sympathetic environment for business as a whole. For the most part this will probably mean Government simply removing obstacles to the development of smaller firms."

The CBI calls for tax concessions contained in the Business Start-up Scheme to be enlarged. The scheme, introduced in the Budget, provides maximum tax concessions for people making investments of £500 or more in businesses not more than five years old.

"Established small companies, moving through a period of expansion, often have better growth prospects than start-up companies," says the CBI. "By providing incentives to existing small companies to expand, the Government may find that the benefits to the economy as a whole are even greater than those that the imaginative start-up scheme is likely to provide."

"Smaller Firms in the Economy, 1981: a position and policy progress report, CBI, Centre Point, 102 New Oxford Street, London WC1A 1DU. Price £5.

Merrill Lynch corporate finance bid

BY CHRISTINE MOIR

MERRILL LYNCH, the U.S. securities house and investment banking group, is making another attempt to establish itself in corporate finance in London, following the short-lived appointments of Mr David Montagu and Mr John Craven.

The two men were appointed in January last year to head the London operations, partly in order to develop an international arm to complement the large New York-based corporate finance department with Merrill Lynch White Weld Capital Markets group.

The plan went into abeyance when the two men parted company with Merrill Lynch a year later.

Merrill Lynch is now trying again. But this time it has chosen to appoint a mergers and acquisitions specialist.

Mr Nahum Vaskevitch, until recently a director of Hill Samuel, the merchant bank, and head of the mergers and acquisitions division of its corporate finance department, starts with Merrill Lynch today.

He will operate from London as an executive director of Merrill Lynch International Bank. He will also be one of the managing directors of White Weld, responsible for all mergers and acquisitions business outside the U.S.

Merrill Lynch has its eye on the $11bn or so of corporate funds invested in direct acquisitions outside their own countries—U.S. companies in West Europe, and Western European companies in the U.S.

Managers buy Dunlop division

THE MANAGERS of a division of Dunlop, dealing with the manufacture of process heating systems for industry, have formed it into an independent company following a buy-out agreement.

The division's activities were based largely on a newly-developed method of heating liquids in tanks with a gas-fired tube heater and burner, which was patented by Dunlop and BP. The sale follows a reorganisation of Dunlop's engineering activities.

Mr John Spencer, managing director of the new company, Lanemark Thermal Systems, said he and three other managers had acquired a 75 per cent equity stake, while the Industrial and Commercial Finance Company held the other 25 per cent.

The sale price was not disclosed but Mr Spencer said he and his colleagues had invested £45,000 in the company and the rest had come from ICFC and loans from other sources. Lloyds Bank provided overdraft facilities.

Dunlop formed the division four years ago, prompted by the demand for high-efficiency heat generation equipment.

Another of its activities is the supply of rapid steam generators to replace costly boilers and pipe networks in industry.

The company, which will initially reduce its workforce because some of the 25 former employees are staying with Dunlop, will move its headquarters from Rugby to Nuneaton.

Banks could boost term lending

BY WILLIAM HALL, BANKING CORRESPONDENT

THE BANKS have the resources to lend an extra £5bn for industrial investment over the next couple of years and are prepared to increase their term lending significantly if the demand for such facilities materialises.

This willingness is expressed in a report by a study group reviewing the terms and conditions of bank lending and its relationship to UK industry, set up by Mr Michael Grylls, chairman of the Conservative Industry Committee.

For the first time the banks, under the umbrella of the Committee of London Clearing Bankers, have given details of the maturity structure of their lending to British industry.

At mid-August, London clearing banks advances to the non-personal sector in the UK amounted to £34.1bn. Some £15.7bn was in the form of overdrafts and £18.4bn was fixed-term loans. The committee divides its members' term loans into four maturity categories—up to one year, one to three years, three to five years and five years and over. More than a third of the term loans were due to mature in three years or more.

It points out that the information given refers to the residual rather than the original maturity of the loans. The initial maturity of new term loans to British industry is considerably greater.

The committee says the actual maturity pattern of the banks' advances "is in no sense indicative of the maturity pattern that the banks would be willing to see if industrial demand for medium and long-term loans were to increase further."

The banks have become much more prepared to engage in term lending over the last few years—partly due to the abolition of lending ceilings and the development of the sterling money markets and partly because they have "greatly modified" their reluctance to "borrow short and lend long."

A great deal of term finance is routed indirectly by the banks to industry via the banks' leasing subsidiaries whose own assets do not figure in the banks' lending statistics, the committee says. At the end of last year the banks had leasing commitments of about £3.5bn.

Faced with recurrent criticism that banks are not doing enough to help British industry, the banks have gone to considerable lengths to convince Mr Grylls's study group that they are prepared to lend money long-term if there is the demand.

Editorial Comment, Page 16

MATURITY STRUCTURE OF UK BANK LENDING TO INDUSTRY*

£bn	Sterling	Foreign currency	Export credit	Total
Overdraft	15.5	0.3	—	15.7
Term loans:				
up to 1 year	5.2	0.8	1.3	7.3
1-3 years	2.4	0.4	1.2	4.0
3-5 years	1.5	0.5	0.8	2.8
5 years plus	2.6	1.0	0.8	4.4
Total	27.0	3.0	4.2	34.1

* August 1981; advances to UK non-personal borrowers.
Source: CLCB.

UK NEWS

Inland revenue appeals on ICI tax ruling

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE INLAND Revenue will challenge in the Court of Appeal today a ruling that it cannot tax ICI employees on awards made to their children by an educational trust set up by the company.

The High Court ruled last November that the awards were covered by an exemption relating to scholarships in the 1970 Income and Corporation Taxes Act.

The court rejected the Revenue's argument that the awards were taxable benefits for the children's parents, under the 1976 Finance Act.

ICI established its educational trust in 1977 to provide scholarships for fulltime further education, preferably at a university, for the children of employees of ICI and certain subsidiaries.

Two employees contested Schedule E assessments that included awards to their children.

The Revenue contended that the awards were benefits in kind and taxable, in the case of directors or higher-paid employees, under Section 61 of the 1976 Act.

The High Court said that when Parliament passed the 1976 Act, it could not have intended to nullify or impair the unqualified exemption given in the 1970 Act.

Motorfair sales fetch £5.5m

By John Griffiths

MORE THAN 800 cars worth £5.5m were sold during the first three days of Motorfair, the Earls Court show which ends next Saturday.

The orders at London's first motor show for four years included one from Canada for 100 TVR sports cars worth £1.25m, representing about a quarter of normal annual production volume for the Blackpool - based specialist manufacturer.

BL, which is taking a series of national newspaper advertisements to present its case ahead of the threatened strike at the end of this month sold 55 vehicles worth nearly £500,000.

It said it was selling "everything from Minis to Jaguar XJS's." It has chosen Motorfair as the launch venue of its joint car project with Honda, the Triumph Acclaim.

Frazer Cars, the Northampton company formed to sell a luxury high performance version of the Austin Metro built by Aston Martin's Tickford coachbuilding subsidiary, said interest in the £11,600 car was so high "it is difficult to count the orders."

Aston Martin sold two Lagondas and two V8 Volantes worth more than £200,000. Rolls-Royce sold three cars for £180,000.

Heseltine decides against appeal on council grants

BY ROBIN PAULEY

MR MICHAEL HESELTINE, Environment Secretary, has decided that he does not want to appeal against the High Court judgment which found he acted unlawfully in withholding grant from six London councils for overspending. But it is almost certain he will not repay any grant to any of the councils.

However, Heseltine's legal advisers are still worried about the possibility that a large number of councils might make detailed representations about their grant levels and penalties. As there are 456 councils in England and Wales this process could make the operation of the grant distribution mechanisms extremely difficult.

Mr Heseltines official position is that he is still considering the 100-page judgment before deciding what to do. But he has decided not to appeal because he feels the court has cleared him of all serious charges and has found against him only on a technicality which could be rectified without altering either policy or the penalties.

Lord Justice Ackner and Mr Justice Phillips, sitting in the Queen's Bench Divisional Court found that Mr Heseltine had unlawfully withheld £9.57m from six Labour-controlled London boroughs — Brent, Camden, Hackney, Hounslow, Tower Hamlets and Waltham Forest. They quashed the order which related to grants for 1980-81.

They ruled that Mr Heseltine had not exercised his discretionary powers validly, because he had refused to consider representations from the councils between November, 1980, and the end of January, 1981. He had not acted beyond his legal powers and had not misdirected himself in law. If he had not "turned a deaf ear" to the representations he could have reached the same penalty decisions within the law.

For this reason Mr Heseltine has decided not to go to appeal and he feels his view is vindicated by the fact that the six councils were awarded only 75 per cent of their costs from the 12-day case.

Decision soon on training boards

BY ALAN PIKE

AN announcement by Mr Norman Tebbit, Employment Secretary, on the future of Britain's statutory industrial training boards will be made in the next fortnight.

Members of the Manpower Services Commission, which is responsible for running the employment and training services, today will begin preparing final recommendations to the Government on a programme for large-scale reform of the industrial training system.

It is likely to be the end of the year before these recommendations are complete, and Mr Tebbit has been under pressure to resolve the uncertainty about statutory training boards more speedily. He will do so early in the new session of Parliament.

The future of the boards has been in doubt since the Government announced a year ago that it wanted to place greater emphasis on voluntary training arrangements. But in July the MSC recommended that seven of the 24 boards — covering about 7m workers—should continue on a statutory basis, with the possibility that some other sectors of industry would also require statutory boards.

While Mr Tebbit is not obliged to accept the MSC's recommendations, there is little doubt that some of the statutory boards will survive. The seven which the Employment Secretary has been told he should retain cover engineering, construction, ceramics, clothing, hotel and catering, road transport, and rubber and plastics.

Members of the MSC will spend today and tomorrow assessing responses from industry and elsewhere to its New Training Initiative for restructuring training arrangements. This recommends reform of the traditional time-served apprenticeship system, better prospects for adult retraining, and a year of vocational preparation for school-leavers.

Humber Bridge traffic shortfall

BY ANTHONY MORETON, REGIONAL AFFAIRS EDITOR

THE HUMBER Bridge, which opened to traffic on June 24, is now handling about 7,000 vehicles a day during the working week. Up to midnight on October 18, the last date for which figures are available 1.3m cars, vans and lorries had crossed the bridge.

The great majority of the vehicles, as expected, are cars —86 per cent. Heavy commercial vehicles—lorries over three tons —account for just under 5 per cent of all traffic though their share of Monday to Friday crossings, which is a better indicator of use of the bridge by this type of vehicle, is about 13.5 per cent.

The success of the bridge in financial terms depends to a great extent on the amount of heavy goods traffic generated. Cars pay £1 for the crossing but the rate for goods vehicles goes up to £7.50.

The bridge saves at least 60 miles between Scunthorpe and Hull and it was thought that when the Chancellor of the Exchequer put up the price of petrol steeply in his spring Budget there would be every incentive to use the bridge as a cost-saving route.

This view has not been taken by sufficient commercial operators to keep the bridge authorities completely happy. With indications that the numbers crossing have reached a plateau, there will have to be a big surge in commercial vehicle use if the bridge's construction costs, not to mention its direct operating costs, are to be met.

The bridge cost £88m to build and with capitalised interest charges the total has come to about £125m. This means that the Bridge Board, the operating authority, has to find some £30,000 a day, almost £11m a year, to meet the interest charges alone.

So far, in the first 16 weeks, the tolls have brought in about £1.82m, which when annualised would indicate an income for the 12 months of about £6m.

Consumer services Act urged

FINANCIAL TIMES REPORTER

CONSUMERS' rights for services should be set out simply in a new Act of Parliament, similar to the Sales of Goods Act, the National Consumer Council argues in a report published today.

It says existing legislation covering services, whether they are the repair of consumer durable, or beauty and hair treatment, is far too piecemeal. Consumers and suppliers should know what the position of rights is.

The council proposes that existing rights should be set out in a new Act stating that services should be carried out with reasonable care and skill, services should be carried out within a reasonable time, and suppliers should be entitled to claim only a reasonable price, where no price has been fixed.

An opinion poll carried out for the council by Research Services between November 1979 and November last year found that the official level of complaints reported by the Office of Fair Trading were only the tip of the iceberg.

New rise in shopping basket

BY GARETH GRIFFITHS

THE FINANCIAL TIMES Grocery Price Index rose in October for the second consecutive month, with meat, fruit and vegetables continuing their price rise upwards because of the end of cheaper summer supplies.

The October index stood at 137.49, compared with 136.60 in September. The increase in the shopping basket on which the index is based was caused by increases in dairy produce, meat and fresh fruit and vegetables.

There has been a trend of steadily rising prices for almost of this year with a slight respite in July and August.

The largest absolute increase in costs was in the meat sector, as was the case last month. It rose in price from £578.06 to £588.34.

Frozen foods, suger, tea, coffee, soft drinks, preservatives and dry groceries, all showed slight increases, although sauces and pickles remained the same in price and canned foods fell in price as did the non-foods sector.

The FT Grocery Prices Index can be regarded only as a guide to trends within the food retail trade and not as an absolute indicator of price levels. Food prices, for example, vary throughout the country.

The index is based on data collected in 25 grocery stores by FT shopers who monitor a list of more than 100 items each month in the same shop. The shops chosen range from village grocers to large supermarkets.

It is not clear whether food sales have maintained their volume over the past month as the squeeze on real incomes starts to bite.

Food volume sales have been maintained during recent months and the large multiple grocery chains report sustained business.

However there are some indications that food sales are beginning to falter with some down-trading by consumers anxious to make their money go as far as possible.

Grocery prices are likely to continue to rise during the autumn although the squeeze on food retail margins and the promotions of the large multiple means that food inflation rates are still running below that of the increase in both the Retail Price Index and the Tax and Prices Index.

The FT Grocery Prices Index is copyright and may not be reproduced or used in any way without consent. All inquiries should be made to Miss Lucinda Wetherall at the Financial Times.

FINANCIAL TIMES SHOPPING BASKET
OCTOBER, 1981

	October £	September £
Dairy produce	693.01	687.53
Sugar, tea, coffee and soft drinks	211.06	209.72
Bread, flour and cereals	316.00	317.50
Preserves and dry groceries	114.50	113.50
Sauces and pickles	54.52	54.52
Canned foods	196.53	196.76
Frozen foods	244.70	243.65
Meat, bacon, etc. (fresh)	588.34	578.06
Fruit and vegetables	264.85	261.01
Non-foods	239.70	242.10
TOTAL	2,923.21	2,904.35

1980: January 120.47; February 122.32; March 124.18; April 125.94; May 128.79; June 128.53; July 129.04; August 128.41; September 127.41; October 126.84; November 127.77; December 129.38

1981: January 130.96; February 131.75; March 132.75; April 134.93; May 136.30; June 137.37; July 136.62; August 135.80; September 136.60; October 137.49.

Lack of support threatens TUC newspaper plan

BY CHRISTIAN TYLER, LABOUR EDITOR

THE TUC's plans for launching a newspaper sympathetic to the labour movement are running into the sand for lack of trade union support.

Despite two appeals to its 100-plus affiliates, the TUC has raised little more than half of the £40,000 needed to conduct a preliminary study.

The gloomy prospects for the venture—which was conceived as an answer to persistent and vociferous trade union complaints about Press treatment of the labour movement—have been spelled out to a TUC media working party.

The group has decided to make one more appeal for money in the hope that the full study, which is being chaired by Lord McCarthy of Oxford University, can go ahead.

A confidential list of the contributing unions shows some notable gaps. There is no recorded donation from the National Union of Railwaymen, the Miners, the white-collar ASTMS, or the Electricians.

Three print unions, the National Graphical Association, the National Union of Journalists and the Process Workers (Slade) have also hung back.

Of the 34 unions who have contributed, some have put in derisory amounts. For example, the 140,000-member Association of Professional, Executive, Clerical and Computer Staffs has donated only £50, while an APEX branch collection has raised £25.

The main contributors so far are the 1.8m-strong Transport Workers, with £8,500, the General and Municipal Workers with £3,000, the National Union of Public Employees (£2,000), the Society of Graphical and Allied Trades (£2,000) the Shopworkers (£1,800) and the local government officers Nalgo (£1,050). The small train drivers union ASLEF has sent in £500.

Britain's second largest union, the Engineering Workers, has promised £400 but its white-collar section TASS has given nothing, according to the list.

TGWU leaders have already warned that they see no point in going ahead if the union movement is not prepared to put up cash for the study.

When the TUC's media group met on Friday it had three options: to scrap the project, try and make do with a more limited study, or launch a further appeal. It decided to recommend to today's TUC finance and general purposes committee meeting to try another appeal.

The failure of the unions to respond with any enthusiasm to the pilot project is a considerable embarrassment to the TUC. when the plan was first announced. Mr Len Murray, TUC general secretary, said he hoped to see the paper off the ground by the end of this year.

The first appeal netted only £11,905. Unions were reminded again during the September annual Congress in Blackpool, when another policy resolution critical of the media was passed. This accused the Press, radio and television of biased and selective reporting and misrepresentation of trade union issues, particularly in the national newspapers.

The electricians union added a rider that the British press provided freer access and more balanced reporting than the press in many other countries.

One reason for the lack of trade union response may be financial difficulties. Many unions are losing thousands of members because of high unemployment.

Hoover talks to prevent closure

Financial Times Reporter

OFFICIALS of the Engineering and General and Municipal Workers Unions are to have talks with directors of Hoover today in a bid to avert the closure of the Perivale plant with the loss of over 1,000 jobs.

Union leaders said it was "ludicrous" to shut down the West London vacuum cleaner plant when it consistently proved to be the most efficient and profitable of the company's three UK factories.

They want to see the report of independent management consultants on which the cutback decisions were made to enable them to assess whether there is an alternative.

Mr Harry Greenway, Tory MP for Ealing North, has written to Employment Secretary Mr Norman Tebbit, Industry Secretary Mr Patrick Jenkin and the Prime Minister Mrs Margaret Thatcher.

Mr Greenway also intends to raise the matter in the Commons, and has tabled a motion asking the Government to do all it can to make Hoover share its operations between plants at Merthyr Tydfil in South Wales and Cumberslang in Scotland.

'BSC plans further 19,000 job cuts'

BY OUR LABOUR EDITOR

BRITISH Steel Corporation managers have been issued with detailed plans for shedding another 19,000 jobs from the company by next April, steel unions said yesterday.

Without closing any major plants, BSC aims to cut its workforce to about 90,000 by the end of the financial year.

The company hopes to achieve this in the course of plant-level pay negotiations. It is refusing to make any national wage offer. Local deals tied to productivity may yield between 5 and 7 per cent wage increases, according to union calculations.

Craft unions have agreed to suspend national negotiations this year. But the main production union, the Iron and Steel Trades Confederation, has refused to authorise local bargaining on the terms offered by BSC.

Last night Mr Bill Sirs, general secretary of the ISTC, accused the BSC of breaking procedures that had been in operation "for decades."

He said the only pay rises offered by the company would be in the form of quarterly bonus payments. Those payments could be stopped at any time, he said.

Furthermore, BSC did not intend to allow workers at the profitable plants to benefit—their wage increases would be pegged to help pay for the others, Mr Sirs said.

Last year BSC imposed a six-month wage freeze and paid a 7 per cent increase. The ISTC refused formally to accept that increase and sign any agreement.

Further talks on this year's wages resume in a fortnight.

De Lorean stoppage settled

Financial Times Reporter

A DISPUTE which affected production at the De Lorean sports car plant in Belfast appears to have been settled.

Management and union leaders are believed to have hammered out a peace formula at the State-aided factory after 400 body shop workers were sent home early on Saturday.

The Transport and General Workers' Union said it would recommend a return to work after discussions with management.

The return to work is expected on Monday. There was no weekend work in the body shop.

Dispute hits 1,500 pubs

A STRIKE by 440 brewery draymen and warehousemen east of the Penines could affect 1,500 pubs in the North West.

Men at the Bass Brewery at Tadcaster, North Yorkshire, went on strike last week after rejecting a 9.7 per cent pay offer. Drivers have decided not to cross the picket lines, affecting delivries to Lancashire and Manchester. The distribution depots affected supply 1,500 pubs.

Strike at BBC stops screening

THE BBC play "If winter comes" starring Paul Scofield was not screened last night, because of the strike by video editors.

It was replaced by snooker. The BBC said it was not possible to say what other programmes could be affected.

Liverpool dock hiring under revue

Financial Times Reporter

THE TRANSPORT Workers Union representatives on the Liverpool Port Modernisation Committee meet today to review the talks last week with the employers aimed at closing loopholes in the recently agreed pay and productivity package for the 3,500 Mersey dockers.

Work on the Mersey is back to normal following the week-long strike over manning problems which closed the port when the new programme was introduced. The final stages of the changes in working practices, which will make the package self-financing, were due to come into operation today.

The two parties are still discussing the method of hiring gangs at the Royal Seaforth specialised container terminal. The system of guaranteed gangs on special rates of pay is to be abolished and the union is insisting there should be a now hiring formula.

Mr Denis Kelly, chairman of the Mersey Dock Shop Stewards, said: "Container ships want immediate service and a rapid turnround unlike general cargo vessels which can spend up to 10 days in port.

"We want to ensure there is no speedy "blue-eyed" system of preferential treatment for hiring the gangs and all the men are treated equally.

Cancer unit gets £½m

THE NORTH-WEST Cancer Research Fund has given £500,000 to Liverpool University's new department of radiation oncology to undertake fundamental research into the cause of cancer.

INSURANCE

Gloom over non-life free market

BY JOHN MOORE

PROSPECTS FOR the establishment of a common market for non-life insurance services in the European Community looked particularly bleak last week.

No significant progress had been made after a meeting of EEC Economics and Finance Ministers in Luxembourg towards adopting a six-year-old draft directive which would remove existing national barriers for the provision of insurance services thoughout the community

For industrialists and insurers alike the lack of progress has caused annoyance and frustration. Ahead of the Luxembourg meeting the Union of Industries in the EEC stressed the need "to eliminate the obstacles to the free provision of insurance services from one member state to another," and deplored the fact that more than 20 years after the implementation of the Treaty of Rome one of its main objectives had not been achieved.

The union added: "It is in the interest of European industry, as a policyholder, to be able to cover its risks with those insurance companies which offer the cover it requires on the most favourable terms."

At present large multinational companies operating in Europe are likely to find it impossible to purchase one insurance policy to cover all their risks. The protectionist stance of member states in the EEC has ofen forced them to insure in local markets with local insurance companies at a relatively high cost in premiums.

Increased competition

Some of those countries participating in the negotiations do not want that state of affairs changed to any large extent. A free market in insurance services will bring increased competition, and possibly some loss of business to local markets within the community.

Negotiations so far have been snagged by a combination of nationalistic insurance considerations, technical problems and bureaucratic delay.

Members of the British insurance community argue that West Germany has played a negative role in the negotiations. The Germans have said there can be a limited measure of freedom of services, which will require insurers from other countries notifying the terms and conditions of insurance contracts offered to German industry.

British insurers say that this smacks of dual supervision. "After all," said one, "we are supervised by the Department of Trade. To be supervised in the way suggested by the Germans is the most bureaucratic nonsense."

The frustration of the British insurers last week was reflected in some of the arguments circulating in London. British insurers were saying that the Germans did not believe in a free market economy as it affected services, and only supported the concept as it affected goods.

The British were also arguing that the German insurance industry growth is slowing rapidly, which in turn has led to a more protectionist stance and an aggressive drive into overseas markets such as the UK through acquisitions or the build-up of large share stakes in overseas groups.

British insurers maintain that London is the only truly international insurance centre within the EEC. As such it needs swift access to available markets, without bureaucratic delay and the duplication and renegotiation of policies in each market where the risk is to be insured or reinsured.

The freedom of services debate has raised other pressures. The French have sought to change the basis of taxation and widen its basis of tax applications to its insurance industry.

It is proving difficult to harmonise the desires of the French with the aspirations of the other members of the Community.

The treatment of insurance branches and agencies is also another area of argument. The more restrictive countries wish to prevent branches and agencies from offering freedom of services business. "Why shouldn't branches and agencies be able to offer the same sort of services as their head offices if they have the capability?" remarked one insurer. "This is *absurd.*"

Consensus view sought

Britain, which currently holds the presidency of the EEC, may choose to seek a mild consensus view from the members participating in the freedom of services discussions, although it has been said that a token directive would not be accepted.

The British insurance market has been canvassing the Government to push the directive through, although many UK insurers are openly gloomy about the form in which the directive—if heavily qualified, *modified, and watered down*—will eventually appear.

It now looks unlikely that the British will achieve their aim of getting the directive adopted during the UK's term in the presidency of the Council of Ministers, which expires at the end of the year. Since Britain has used the power of the presidency to ensure that the draft is high up on the agenda of three successive ministerial meetings, it will not have the opportunity to do so *again* for some years to come. But the issue will be raised again next month.

Small wonder then that observers were saying that the earliest opportunity for renewed effort *for freedom* of services in European non-life insurance would only come again in 1986, when the Netherlands, which is understood to be sympathetic to extending freedom of services, is due to take the presidency.

Parliamentary Diary

HOUSE OF COMMONS

Monday: Opposition motion on BBC external services. Liberal motion on need for investment in British Rail. Motion on Lords Amendments to British Nationality Bill. Protected Shorthold Tenancies (Rent Registration) Order.

Select Committees: Education. Subject: Public and private funding of the Arts. Witnesses: Association of British Orchestras; Society of Authors. 4 pm. Room 6. Energy: Subjects: Energy conservation in buildings. Witnesses: Green and Nicklin. Energy Projects: Newcastle Inner City Partnership; Manpower Services Commission. Group of Eight. 4.15 pm. Room 8.

Tuesday: Lords Amendments to British Nationality Bill. Various orders.

Wednesday: Opposition motion of no confidence in the economic policies of the Government.

Thursday: Lords messages on Wildlife and Countryside Bill. Remaining stages of Betting and Gaming Duties Bill. Acquisition of Land Bill, New Towns Bill. Motion on Magistrates Courts (Northern Ireland) Order. Motion on EEC Commission report on The Mandate.

Select Committees: European Legislation. Subject: Restructuring of Community Budget. Witnesses: Mr Douglas Hurd, Minister of State, Foreign Office. 10.30 am. Room 15.

PROROGATION

Friday: House of Commons and House of Lords meet. State Opening of Parliament is on Wednesday, November 4.

HOUSE OF LORDS

Tuesday: Companies (No. 2) Bill. Commons amendments.

Wednesday: Consideration of Commons messages. Short debate on salmon fishing industry in Scotland.

Select Committees. Treasury and Civil Service. Subject: Efficiency and effectiveness in Civil Service. Witness: Mr Michael Heseltine, Environment Secretary, 4.15 pm. Room 15.

Hull's alarm wins award

HULL Junior Chamber of Commerce have won the American Express 1981 export competition. It beat Bradford, the runner-up, North Hertfordshire and Belfast in the final.

The Hull entry—the "watchdog companion"—is a new distress alarm system designed for the elderly or disabled living alone whose illness might otherwise not be discovered for days. The alarm sounds automatically if a preset microelectronic timer fails to be reset.

Normally, it would be activated when the protected person steps on a pad or opens a door.

3,500 players in darts finals

OF THE 50,000 darts players who entered for this year's Embassy LV championships played in pubs throughout the country, 3,500 pub winners have emerged who will play in 64 county finals in November.

The winner gets £1,000 and a two-week holiday for two. The Licensed Victuallers School will get the £17,500 raised by contestants' entry fees.

هكذا من الأصل

BASE LENDING RATES

A.B.N. Bank	15½%
Allied Irish Bank	15½%
American Express Bk.	15½%
Amro Bank	15½%
Henry Ansbacher	15½%
■ Arbuthnot Latham	15½%
Associates Cap. Corp.	16 %
Banco de Bilbao	15½%
BCCI	16 %
Bank of Cyprus	15½%
Bank of N.S.W.	16 %
Banque Belge Ltd.	16 %
Banque du Rhone et de la Tamise S.A.	16 %
Barclays Bank	15½%
Beneficial Trust Ltd.	16½%
Bremar Holdings Ltd.	16½%
Bristol & West Invest.	17 %
Brit. Bank of Mid. East	15½%
■ Brown Shipley	16 %
Canada Perm't Trust	16 %
Cayzer Ltd.	16 %
Cedar Holdings	16 %
■ Charterhouse Japhet	16 %
Choulartons	16 %
Citibank Savings	¶15 %
Clydesdale Bank	15½%
C. E. Coates	16 %
Consolidated Credits	16 %
Co-operative Bank	*15½%
Corinthian Secs.	15½%
The Cyprus Popular Bk.	15½%
Duncan Lawrie	15½%
Eagil Trust	15½%
E. T. Trust Limited	16 %
First Nat. Fin. Corp.	17 %
First Nat. Secs. Ltd.	17 %
Robert Fraser	16 %
Antony Gibbs	15½%
Grindlays Bank	‡15½%
■ Guinness Mahon	15½%
■ Hambros Bank	15½%
Heritable & Gen. Trust	15½%
■ Hill Samuel	§15½%
C. Hoare & Co.	†15½%
Hongkong & Shanghai	15½%
Knowsley & Co. Ltd.	16½%
Langris Trust Ltd.	16 %
Lloyds Bank	15½%
Mallinhall Limited	15½%
Edward Manson & Co.	17 %
Midland Bank	15½%
■ Samuel Montagu	15½%
■ Morgan Grenfell	16 %
National Westminster	15½%
Norwich General Trust	15½%
P. S. Refson & Co.	15½%
Slavenburg's Bank	15½%
E. S. Schwab	16 %
Standard Chartered	‖15½%
Trade Dev. Bank	15½%
Trustee Savings Bank	15 %
TCB Ltd.	15½%
United Bank of Kuwait	15½%
Whiteaway Laidlaw	16 %
Williams & Glyn's	15½%
Wintrust Secs. Ltd.	15½%
Yorkshire Bank	15½%

■ Members of the Accepting Houses Committee.
* 7-day deposits 14%, 1-month 14.25%. Short term £8,000/12 months 16.60%.
† 7-day deposits on sums of £10,000 and under 13½%, up to £50,000 14% and over £50,000 14½%.
‡ Call deposits £1,000 and over 13½%.
§ Demand deposits 14%.
‖ 21-day deposits over £1,000 15%.
¶ Mortgage base rate.

TECHNOLOGY

EDITED BY ALAN CANE

Methodology for the chip architects

BY LOUISE KEHOE IN CALIFORNIA

U.S. electronic systems manufacturers are turning to a new methods of designing integrated circuit chips that enables them to design their own "systems chips" without recourse to traditional semiconductor companies.

Using the new "VLSI Design Methodology," systems designers can architect their own chips quickly and more cheaply than by conventional methods.

The new approach is also opening up the field to thousands of smaller systems manufacturers for whom specially designed integrated circuits have previously been uneconomical.

Lyn Conway of the Xerox Palo Alto Research Center and Carver Mead of the California Institute of Technology developed the method of designing silicon systems—complex chips that perform all or most of the functions of an electronic system—and last year published a text book describing how it is done.

"Today most (chip) designs are done by semiconductor companies, but our methods will create opportunities for increased design activity elsewhere—in the systems companies," predicts Len Conway. "Eventually this is going to lead to a restructuring of the semi-conductor industry, with the design and manufacturing functions being separated. The semiconductor manufacturer wil become analagous to a publisher, with the creative work being done independently," she says.

The design of custom chips is a major headache. *It can take* hundreds or even thousands of man hours to develop a new chip design and chip designers are in very short supply. Only the largest systems manufacturers have their own design teams.

Others have had to rely on semiconductor companies that specialise in custom work, or independent designers. Another problem has been that because of the economics of chip production only, very large orders for thousands of devices are usually accepted by the semiconductor manufacturers.

The Conway Mead method makes extensive use of computer tools and allows the chip designer to ignore the complexities of semiconductor physics and details of transistor performance.

Instead of concentrating on cramming as many devices as possible into a tiny chip of silicon, they emphasise simplicity. *Structures on the chip* are kept as regular as possible and the design begins with a basic "floor plan" that lays out the required functions on the silicon.

Lyn Conway likens the approach to that taken by radio equipment designers in the late 1950s, "They didn't need to know about the physics of thermionic emission. Semiconductor technology is still changing whereas valve technology is and was then relatively static.

"But by building in variables that account for the ever-decreasing sizes of semiconductor devices and the corresponding increase in device speed, the new approach allows the designer to work with a stable set of simple primitives," she says.

The Carver Mead approach is producing some dramatic results. Courses offered first at Caltech and MIT four years ago *and now at more than 60 universities* in the U.S., have demonstrated that students can produce complex integrated circuit designs in a matter of weeks.

Several major electronics companies have also adopted the design method. Digital Equipment Corporation began by testing the method in 1979 by establishing a new design group to work on a highly complex maths processor chip. The company found that using the Carver/Mead methods, the design time was halved despite the fact that the functional complexity of the chip increased by a factor of five.

Intel has found the new approach useful. Its designers incorporated many of Conway-Mead's techniques in the design of their "micromainframe" microprocessor chips that are amongst the most complex chips so far designed.

The biggest impact of Conway Mead will, however, be on the thousands of smaller systems design companies which have previously been excluded because of their low volume requirements, or because of the prohibitive cost of chip design from the custom design field.

Matchless method for speech synthesis

TWO DEVELOPMENTS that will speed the progress of speech synthesis in systems and machines have been announced.

One is an electronic digital display unit that has an integrated "speakout" and is for use in inspection departments where dimensional checks are being made.

For use with measuring instruments that have a binary coded decimal output, the unit has been developed by Matchless Machines of Horsham (0403 60271) and is designated TTD20. The company believes that, apart from the obvious application for blind or partially sighted inspectors, the unit will prove useful for measurements in awkward places by sighted people.

From Triangle Digital Services comes news of a set of microcircuits, TDS 934, for the generation of the spoken word using the company's "instant speech" method.

The company's "instant speech" service offers analysis of the user's own vocabulary and the delivery of a message-holding memory chip in 48 hours. More on 01-520 0442.

Document call-up French style

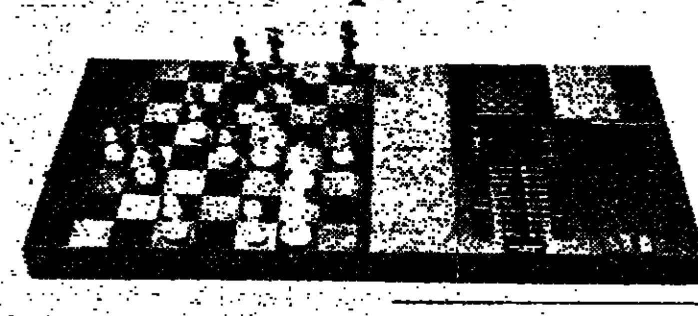
WHERE THERE is a need for rapid access to documents held in a central file, by a number of people at remote locations, then a system made in France and available from London Microfilm Bureau may be of interest.

The system uses closed circuit television and audio intercom working over phone lines. The user simply requests the document by number. Then, whether it is held on paper or microfilm, the central operator simply loads the document into a transmitter.

There is also a teleconference facility which allows the same document to be consulted by several people at the same time.

It is claimed that use of the system results in the elimination of duplication costs and of movement of personnel carrying paper about, while preventing errors than can occur in business because of the difficulty of referring to the proper original documents. London Microfilm Bureau is on 01-403 1103.

Chess Champion Mark V for the grand masters



SOVIET grand masters might like to pit their wits against the Chess Champion Mark V. The British designed and built chess computer was voted best at the World Microcomputer Chess Championship in Hamburg.

With a 24K memory the model can play chess from speed to tournament level. It can handle 12 games at once against other computers or humble humans and can play against itself.

Chess enthusiasts should note that the projected retail price is £279, plus £155 for an "Intelligent Sensorboard." It will be available from the end of this month. Phone Robert Stein at Vulcan Electronics (01-203 5161).

Artificial lights switching system

TWO models designated "Save-lite" have been introduced by Radiovisor of High Path, London, SW19. Each switches on or off artificial lighting according to daylight intensity. More from 01-540 3351.

The Aussie way of thinking about design for two-wheelers

BY ALAN WRAIGHT

AFTER MORE than 100 years of motorcycle development, and at a time when Honda has just written-off a reported £5m investment in an unsuccessful racing machine by saying the bike was only ever a test bed for ideas, it is interesting to find a designer who believes that for most of its history motorcycle technology has been moving headlong down an engineering dead-end.

Trevor Innes, a 28 year-old Australian now living in London, is so convinced of this that he has designed and built a new motorcycle. Named the Booleroo after its constructor's home town, a small farming community in South Australia, the bike has already attracted an order book of sufficient size to ensure that Mr Innes will be kept well employed for some time to come.

He is seeking finance to put a range of similarly designed machines into mass production. So far his efforts in the UK have been unsuccessful, but interest has been shown in the U.S. and France.

Although, perhaps, not surprising that a new approach to motorcycle construction met with resistance in Britain, traditionally a bastion of conservative bike design, Mr Innes is convinced that there is a whole new market waiting to be tapped.

It must be recognised that only part of the population can be enticed to powered two-wheelers in conventional form. The Japanese are finding this in the U.S. where the introduction of larger and more complicated models has failed to have the desired effect of stimulating a flagging market.

Mr Innes believes that it is only by a complete re-think of the fundamental design of the motorcycle can real sales growth be found.

His argument is that the powered push-bike principle, from which all mass produced motorcycles are derived, has built-in inadequacies. Deficiences he points to are poor weight distribution, the transfer of this weight under braking, aerodynamic shortcomings, lack of adequate suspension and a failure to produce a steering performance capable of matching the increasing power pushed out by modern engines.

He also highlights lack of luggage capacity, the cost of maintaining today's complex machines and lack of comfort.

His solution to the problem lies in a single box section main member chassis which, with the engine slung beneath, allows for the sprung weight to be divided evenly over front and rear wheels.

It is a drawback of conventional motorcycle design that, with most of the weight to the rear, the front end can tend to become light, and steering imprecise. Under braking, the weight automatically comes forward and the front of the bike tends to dive, producing some instability. With its 50/50 front-rear weight ratio and by the use of an anti-dive breaking system the Booleroo represents one solution.

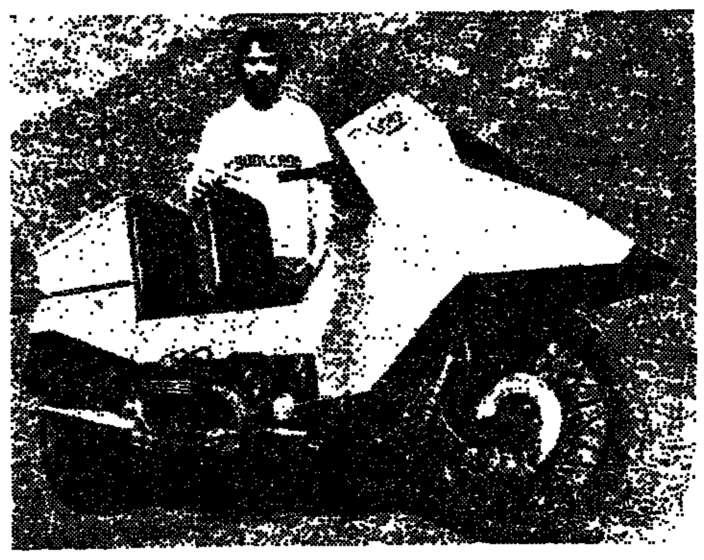
One tends to sit in the Booleroo rather than on it. The seats are within the wheelbase, thus avoiding the jarring motion common to most machines, where the saddle is placed close to the back wheel, and usually directly above the rear shock absorbers.

Mr Innes describes his creation as giving the comfort of a car, while still retaining those elements of acceleration and manoeuvrability which gives the motorcycle superiority over its four-wheeled counterparts.

There are similarities between the design of the Booleroo and that of the Quasar produced in the south west of England by Malcolm Newell. But Mr Innes says that where his bike scores is that it is not an entity in itself, but a base from which a number of model variations can be produced with a minimum of effort and expense.

The use of plug-in electrics and the body panels attached by only four bolts, expedite any switch in model specification. By buying one bike and a number of interchangeable fibreglass of ABS plastic streamlining components the customer is given the option to change his motorcycle—from a sports machine to a tourer—quickly and cheaply.

Mr Inness is convinced that if motorcycles are to improve then there must be a change of engineering direction. The irony is that having built the Booleroo to prove the inherent flaw of basing a motorcycle on a push-bike layout, Mr Inness is about to reverse the evolutionary process and produce a pedal-cycle based on the Booleroo.



TREVOR INNES with his Booleroo

CONTRACTS AND TENDERS

INTERNATIONAL PUBLIC BIDDING

The Instituto Nacional de Canalizaciones (INC) of Venezuela offers for sale, "As is, Where is," the following goods:

Item 1. Dredge "Zulia" with spare parts: Built in 1959, LOA 167 mts., beam 29 mts., maximum draught 8 mts., displacement 28,700 tons, classification: ABS, as "Cross of Malta A-1" Class (E), equipped with two steam turbines of 5,500 HP each, two propellers, three turbo generators of 120 KW to 440 V each, boom 133 mts; 22 chutes with a total capacity of 6,600 cubic metres; a lot of spare parts is included.

Item 2. Jet Pump System: Composed of 3 MAN Diesels, model V6VTT/30 ATL, each one coupled to REM alternators, model SD6BA-143-8 of 1200 KW interconnected with two motor pumps with electric motor, made by Electro Maschinenfabrik, model DK133-4, 850 KW and KSB centrifugal pump, model RDL400-480, with a capacity of 2630 M3/hr. All this equipment is on board the dredge but has not been used.

A. SALES CONDITIONS:

1. "As is, Where is."
2. Payment by Irrevocable Letter of Credit in favour of I.N.C.
3. The offer must be accompanied by a bidding bond for US$140,000 for Item 1 and US$20,000 for Item 2 in favour of the Instituto Nacional de Canalizaciones.
4. Offers will be received and opened in a public ceremony at the office of I.N.C. in Caracas, Venezuela, on January 19, 1982, at 10.00 a.m. Venezuelan time.
5. Preference will be given to those bids for the entire package.

B. CO-ORDINATION AND INFORMATION:

The equipment may be inspected in Maracaibo, after previous agreement with: Mr. Augusto Mata and/or Mr. Luis Roo, I.N.C., Av. El Milagro, Maracaibo, Venezuela. Phone: (061) 19.14.74 and (061) 91.32.33, Exc. 150. Telex: INCANAL 61391.

For additional information please contact: in Caracas: I.N.C., Att: Eng. Miguel Munoz-Tebar. Phone: (2) 91.75.24. Telex: 23.172. In New York: CVG International America, Inc., 576 Fifth Ave., New York, N.Y 10036. Phone: (212) 921-9466. Telex: 429250. Att: Antonio Nogales.

C. RESERVE CLAUSE:

I.N.C. reserves the right to extend the afore-mentioned closing date, or to take any other decision in this respect, should it be considered favourable to its interests. In like manner, I.N.C. reserves the right to discontinue the bidding process or to declare it cancelled if the conditions of the process do not comply with the existing regulations.

PEOPLE'S REPUBLIC OF MOZAMBIQUE

CITRUS DEVELOPMENT PROJECT-MAPUTO PROVINCE FINANCED BY THE AFRICAN DEVELOPMENT FUND

INVITATION TO INTERNATIONAL TENDER

1. The Government of the People's Republic of Mozambique invites interested parties to apply for detailed terms of reference for consulting and supervision services, for the above-mentioned project.
2. The project would, over a five-year period, establish a 1,000 hectares citrus plantation under *sprinkler irrigation* and would comprise:—
   - (i) Basic infrastructure of access and service roads, power and water supplies.
   - (ii) Purchase and installation of a sprinkler irrigation equipment.
   - (iii) Purchase of farm machinery, equipment and vehicles.
   - (iv) Plantation development over 1,000 hectares.
   - (v) Rehabilitation and construction of buildings for offices, workshops, stores and dwelling houses.
   - (vi) Technical support for E.E. Citrinos de Maputo.
   - (vii) Engineering and supervision, and
   - (viii) Detailed engineering studies for second phase citrus project.
3. Interested firms should request the terms of reference from the following address:
   E.E. CITRINOS DE MAPUTO
   P.O. BOX 1659
   TELEX 6-538 - CITRU-MO
   MAPUTO
   PEOPLE'S REPUBLIC OF MOZAMBIQUE
4. Tenders will be opened approximately three months from the date of the advertisement, the exact date being indicated in the terms of reference which will be made available on request.
5. *Tender prices should be valid for a period of at least six months starting from the closing date of tender as indicated in the terms of reference.*
6. Only firms from participant states and member countries of African Development Fund will be considered.

PEOPLE'S REPUBLIC OF MOZAMBIQUE

CITRUS DEVELOPMENT PROJECT MAPUTO PROVINCE

MACHINERY, EQUIPMENT AND VEHICLES

1. The Government of the People's Republic of Mozambique has been granted a loan of Fua 8.9 million from the African Development Fund for the financing of the Citrus Development Project, to be implemented over five years.
2. The Government of the People's Republic of Mozambique invites tenders to prequalify for the supply and delivery of the following goods:—

A) Irrigation Equipment	D) Farm Implements
Pumping stations	2,000-litre sprayers
Pressure pipe network	1,000-litre sprayers
Sprinkler equipment	500-litre sprayers
B) Farm Machinery	Rotary slashers
Bulldozers 200 hp	Post hole diggers
Tractors 65 and 85 hp	Mould board ploughs (3 furrows)
C) Vehicles	Furrowers
5-ton trucks	Offset disc harrows
Four-wheel drive vehicles	2-ton trailers
Motor cycles	4-ton trailers
Buses	2,000-litre trailer tankers
	E) Workshop Equipment
	F) Packing Equipment

3. Only firms from participant states and member countries of the African Development Fund will be considered under the Fund's regulations.
4. Interested firms should reply within 60 days of the date of publication of this advertisement with all the details considered relevant and necessary to the address shown below. Firms should give a descriptive note of activities together with a certificate that they are a registered firm in their country of origin. They should also indicate the name of the items for the supply of which they would like to prequalify.
   E.E. CITRINOS DE MAPUTO
   P.O. BOX 1659
   TELEX 6-538 CITRU-MO
   MAPUTO
   PEOPLE'S REPUBLIC OF MOZAMBIQUE

NATIONAL ELECTRIC POWER AUTHORITY NIGERIA

Extension to the 330 kv Transmission System

Tenders are invited from suitably qualified contractors for the supply and erection complete of 1200 km of single circuit 330 kV steel tower transmission lines connecting Benin to Onitsha, Jos to Makurdi Enugu and Alaoji and Gombe to Maiduguri. The work includes the special construction for the crossings of the Niger and Benue rivers.

Contractors must have adequate experience in the design, supply and erection complete of 330 kV transmission lines and must be able to demonstrate fully this experience and capability.

The closing date for the return of tenders is 14 January 1982. Tender documents will be available for collection on 2 November 1981 from the *Consulting Engineers to the Authority at the following address* on payment of a non-returnable fee of £50:

MERZ AND McLELLAN, Amberley, Killingworth
Newcastle upon Tyne NE12 0RS, England

Competitive Tendering — Building, Mechanical and Electrical Engineering Works

The South Western Regional Health Authority maintains an approved Panel of Contractors from which firms are selected for Regional Capital Schemes, in the counties of Gloucester, Avon, Somerset, Devon and Cornwall. The Panel is divided into the following three main categories:—

(1) Building
(2) Heating, ventilating and mechanical engineering
(3) Electrical engineering

The Authority is reviewing the Panel, and applications are invited from firms who wish to be considered for inclusion, *indicating the main category or categories of the Panel in which they are interested.* Those firms included on the existing Panel will have already received an application form to enable them to re-apply.

The existing Panel will be cancelled as from the date of the Authority's approval of the new Panel.

An application form may be obtained from the Regional Administrator at:

South Western Regional Health Authority
Queen Victoria House
Redland Hill
Redland
BRISTOL BS6 6US

The closing date for applications is 20 November 1981

APPLICATIONS ARE INVITED FROM REGISTERED COMPANIES OF SOLID WASTE CONTRACTORS

to tender for the provision of twice weekly Refuse Collection Services in a section of The Royal Borough of Kensington and Chelsea

The area of approximately 2 sq miles comprises some 6,000 hereditaments including domestic and trade properties. The quantity of refuse to be removed approximates to 10,000 tons per annum. A deposit of £50 is required for supply of Tender documents and applications should be submitted by 30th October 1981 to:

The Director of Engineering and Works Services
Central Depot, Warwick Road, London W14 8QD

COMPANY NOTICES

NOTICE OF REDEMPTION

TAKEDA CHEMICAL INDUSTRIES, LTD.
(Takeda Yakuhin Kogyo Kabushiki Kaisha)
6% CONVERTIBLE DEBENTURES
DUE 31st March, 1984

NOTICE IS HEREBY GIVEN to holders of the 6% Convertible Debentures due 31st March 1984 (the "Debentures") of Takeda Chemical Industries, Ltd. (Takeda Yakuhin Kogyo Kabushiki Kaisha) (the "Company") that, pursuant to the provisions of the Indenture, dated as of 1st December, 1963 (the "Indenture") between the Company and Morgan Guaranty Trust Company of New York, as Trustee, the Company has elected to redeem all the outstanding Debentures on 30th November, 1981 (London time) (the "Redemption Date") at the redemption price of 101.0% of the principal amount thereof together with accrued interest to the Redemption Date. Payment of the redemption price of the Debentures and accrued interest will be made at the following places upon presentation and surrender of the Debentures together with all coupons appertaining thereto maturing after the Redemption Date:

Morgan Guaranty Trust Company of New York, London Office, P.O. Box 161, Morgan House, 1 Angel Court, London EC2R 7AE England.

Morgan Guaranty Trust Company of New York, Brussels Office, Avenue des Arts 35, Brussels, Belgium.

Morgan Guaranty Trust Company of New York, Paris Office, 14, Place Vendome, Paris, France.

Morgan Guaranty Trust Company of New York, Corporate Trust Department, 30 West Broadway, New York, New York 10015, U.S.A.

Banque Internationale a Luxembourg S.A., 2, Boulevard Royal, L-1022 Luxembourg, Luxembourg.

Interest will cease to accrue on the Debentures on and after the Redemption Date.

The Debentures are presently convertible into Common Stock of the Company at Morgan Guaranty Trust Company of New York London Office, at a conversion price of 132.50 Japanese Yen per share.

The right to convert the principal of the Debentures will terminate at the close of business on the Redemption Date.

IMPORTANT INFORMATION FOR DEBENTURE HOLDERS

The reported closing prices of the Common Stock of the Company on the Tokyo Stock Exchange during the period from 5th September, 1981 to 5th October, 1981 ranged from the high of 961 yen to the low of 795 yen per share. On 5th October, 1981, the reported closing price of the Common Stock of the Company on the Tokyo Stock Exchange was 851 yen per share.

Holders of Debentures, upon conversion, will receive Common Stock having a greater market value than the cash which they would receive upon redemption.

TAKEDA CHEMICAL INDUSTRIES, LTD.
19th October, 1981.

NOTICE TO BOND HOLDERS

THE COPENHAGEN COUNTY AUTHORITY
UA20,000,000
9½% 1975/1985 Bonds

PURSUANT TO THE PROVISIONS OF THE PURCHASE FUND, NOTICE IS HEREBY GIVEN TO BONDHOLDERS THAT:

—during the six-month period following the twelve-month period ending on October 22 1980, the principal amount of UA 470,000 of above-mentioned Bonds were purchased during such twelve-month period, has been purchased.

—during the twelve-month period from October 23, 1980 to October 22, 1981 an additional principal amount of UA 420,000 of above-mentioned Bonds has been purchased.

Amount outstanding UA 17,295,000.

The Fiscal Agent
KREDIETBANK S.A.
Luxembourgeoise

Luxembourg, October 26, 1981.

DAIWA SEIKO INC.
NOTICE TO EDR HOLDERS

This is to notify EDR Holders that at a meeting held by the Board of Directors of the Company, it was recommended that a dividend of Yen 3.75 per share, corresponding to an annual dividend rate of 15 per cent should be paid to all EDR Holders on record as at 31st July, 1981 upon presentation of Coupon No. 11 on or after 21st October, 1981. The General Meeting of the Shareholders will be held on 29th October 1981 to approve the recommendations.

ROBERT FLEMING & CO. LIMITED
Depositary

London, 26th October, 1981.

LONDON BRICK COMPANY

NOTICE IS HEREBY GIVEN that the Transfer Books and Register of Ordinary Stock will be closed on 11th November, 1981.

By Order of the Board,
H. D. HOWE,
Secretary.

Registrars:
Close Registrars Limited,
Arthur House,
803, High Road,
LEYTON,
London E10 7AA.

PUBLIC NOTICES

WILTSHIRE COUNTY COUNCIL

£3,150,000 Bills issued 23rd October 1981 due 22nd January 1982 at 13⅛%. Applications totalled £11.4 million. No other bills outstanding.

LEGAL NOTICES

THE COMPANIES ACTS 1948 TO 1976
NOTICE OF APPOINTMENT OF LIQUIDATOR
(CREDITORS') VOLUNTARY WINDING-UP

Pursuant to Section 305 of the Companies Act 1948, SUPERPRINT (MIDLANDS) LIMITED, Printers, 608 Bromford Lane, Ward End, Birmingham, B8.

Liquidator.
LAURENCE JACK GERRARD, FCA,
Adam House,
14 New Burlington Street,
London, W1X 2BU.

Appointed 9th October 1981 by Members and Creditors.

PERSONAL

NICHOLAS BARBER SHOP OF THE CARLTON TOWER HOTEL

established 20 years, are pleased to announce the return of George. Mr Nicholas, George, Alex and Michael look forward to giving you their friendly and professional service.

Appointments telephone:
01-235 3389 01-235 5411

ART GALLERIES

ALLANS GALLERY. Probably the only Gallery in London devoted entirely to the Textile Art. Hand embroidered silk pictures for giving and collecting: from £2.00 to £2,500. On the lower ground floor of ALLANS famous silk shop at 56/58 Duke Street, Grosvenor Square, London, W1. Mon.-Fri. 9-6, Sat. 9-1. Brochure 50p on request.

BROWSE & DARBY 19, Cork St., W1. 734 7984. SIR ROBIN PHILIPSON—Recent Paintings and Watercolours.

COLNAGHI ORIENTAL and Shirley Day Ltd. at 14, Old Bond Street, London, W1. 01-491 7408. ONE THOUSAND YEARS OF ART IN JAPAN from 21 October until 27 November. Mon.-Fri. 10-5.30, Sats. 10-1.

FIELDBORNE GALLERIES, 63, Queens Grove, NW8. 586 3600. JO JONES—GYPSIES OF GRANADA.

LEFEVRE GALLERY, 30, Bruton St., W1. 01-493 1572/3. 20th CENTURY WORKS ON VIEW. Mon.-Fri. 10-5, Sat. 10-1.

MARLBOROUGH, 6, Albemarle St., W1. KURT SCHWITTERS IN EXILE: THE LATE WORKS 1937-48. Until 31 Oct. Mon.-Fri. 10-5.30, Sat. 10-2.30.

MATHAF GALLERY 24, Motcomb Street, London, SW1. Tel: 235 0010. Specialists in 19th Century and Contemporary paintings of ARABIA.

WHITECHAPEL ART GALLERY, Whitechapel High St. 01-377 0107. To 1 Nov. BRITISH SCULPTURE IN THE TWENTIETH CENTURY, Part 1, 1901-50. Sun-Fri. 11-5, cl. Sat. Adm. £1 (50p). Free Mon. 2-6.

WYLMA WAYNE FINE ART, 17, Old Bond Street, W1. 629 4511. Recent works by GHISHA KOENIG AND SAM RABIN. Until Oct. 30.

TRAVEL

FLY FIRST CLASS for Savings plus Service. Phone St. James's Travel, 01-499 8173. (Air Agents).

THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

MUNICIPALITY OF BENGHAZI

BENGHAZI MAIN DRAINAGE PROJECT

PHASE 2 CONTRACTS

INVITATION FOR TENDERS FOR CONTRACT 204A

The People's Committee for the Municipality of Benghazi

Benghazi Main Drainage Project

The work to be executed under this contract is generally as follows:—

1. Construction of approximately 82 km of foul and stormwater sewers. Lateral and gully connections ranging from 150 mm diameter to 1,300 mm diameter.
2. Construction of manholes, gullies, inspection chambers and ancillary chambers.
3. Construction of pumping station GT2 approximately 23.0m x 14.5 m x 9.0 m deep together with associated generator house and gate house, chambers and site works.
4. Supply and installation of all pumping plant at pumping station GT2 together with all electrical installations and control gear.
5. Supply and installation of standby generator at the generator house together with all associated equipment.

Documents for the submission of tenders, comprising conditions of tender.

Conditions of Tender

Conditions of contract, general specification, form of tender, particular specification, geotechnical appreciation, bills of quantities and drawings may be obtained from the tenders section of the Municipality of Benghazi on payment of LD 200 Libyan Dinars which shall not be refunded to the tenderer. Tenders shall be addressed to: The Secretary of the Central Tenders Committee, Benghazi.

Tenders shall be enclosed in a sealed package marked: "Tender for Benghazi Main Drainage — Phase 2 — Contract 204A."

A covering letter stating the contents of the sealed package shall be attached to the tender, and any tender submitted without such covering letter will not be considered. When submitting a tender the tenderer shall provide a preliminary guarantee deposit in the sum of LD 10,000 Libyan Dinars which will be refunded to the tenderer if his tender is not accepted.

The tender shall be valid and binding for a period of six months from the date of opening of the tenders. The tenders shall be delivered as above at or before 12.00 noon on 12th December, 1981.

CENTRAL TENDERS COMMITTEE FOR BENGHAZI MUNICIPALITY

THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

MUNICIPALITY OF BENGHAZI

BENGHAZI MAIN DRAINAGE PROJECT

PHASE 2 CONTRACTS

INVITATION OF TENDERS FOR CONTRACT 200A (2)

The People's Committee for the Municipality of Benghazi invites tenders from experienced companies for Contract 200A (2) of the Benghazi Main Drainage Project.

The work to be executed under this contract is generally as follows:—

1. Construction of approximately 24 km of foul and stormwater sewers, lateral and gully connections ranging from 150 mm to 2,000 mm diameter.
2. Construction of approximately 3 km of pumping main ranging from 300 mm diameter to 1,600 mm diameter.
3. Construction of manholes, gullies, inspection chambers and ancillary chambers.
4. Construction of pumping station GT13 approximately 17.0 m x 11.0 m x 10.3 m deep together with associated generator house and gate house on piled foundations, chambers and site works.
5. Construction of pumping station SW11 approximately 19.0 m x 11.0 m x 11.0 m deep.
6. Construction of pumping station 8.3 m deep together with associated generator house and gate house on piled foundations, chambers and site works.
7. Supply and installation of all pumping plant and screening equipment at pumping station GT7, GT13 and SW11 together with all electrical installations and control gear.
8. Supply and installation of standby generators at the two generator houses together with all associated equipment.

Documents for the submission of tenders, comprising conditions of tender.

Conditions of contract

General specification, form of tender, particular specification, geotechnical appreciation, bill of quantities and drawings may be obtained from the tenders section of the Municipality of Benghazi on payment of 200 Libyan Dinars which shall not be refunded to the tenderer. Tenders shall be addressed to: The Secretary of the Central Tenders Committee, Benghazi.

Tenders shall be enclosed in a sealed package marked: Tender for Benghazi Main Drainage Project — Phase 2 — Contract 200A (2).

The package shall bear no name or other mark indicating the sender. A covering letter mentioning the contents of the sealed package shall be attached to the tender and any tender submitted without such covering letter will not be considered. When submitting a tender the tenderer shall provide a preliminary guarantee deposit in the sum of 10,000 Libyan Dinars which will be refunded to the tenderer if his tender is not accepted.

The tender shall be valid and binding for a period of six months from the date of opening of the tenders. Tenders shall be delivered as above at or before 12.00 noon on 12th December, 1981.

CENTRAL TENDERS COMMITTEE FOR BENGHAZI MUNICIPALITY

BUILDING AND CIVIL ENGINEERING

Georgia's leaning tower of power

THE DISTINCTIVE inverted wedge of the Georgia Power Company's newly - occupied Atlanta headquarters could be the shape of things to come in energy-efficient buildings.

Its dramatic appearance has been determined by advanced energy conservation ideas.

The creation of Atlanta-based architects and engineers Heery and Heery, it uses 65 per cent less energy than comparable postwar structures, and is said to be the most energy-efficient high-rise building in the U.S.

Total cost of the project including land and financing is $60m (£34m). Total construction cost including all interior fittings and finishing as well as site landscaping and parking, is less than $60 (£34) per sq ft.

Main energy saving aspects are in the basic building "envelope" and mechanical and electrical systems design. The building also has a 24,000 sq ft developmental system of parabolic concentrator solar collectors—believed to be the largest commercial application of this type in the U.S. and possibly in the world—which will provide 15 per cent of its energy requirements, at times of peak demand.

The stepped south face is to create shade in the summer and allow the sun's heat in during the winter. The top of the south face of the 345-ft high building protrudes beyond the base by 23 ft. It has led to the electricity company's new 24-storey edifice being dubbed "the leaning tower of power."

Mr George Heery, chairman of the Heery group, said that buildings of the quality and technical standard of the Georgia Power edifice, adapted to the British environment, could be built in the UK with similar results.

"In the UK we should be able to achieve savings in energy consumption of roughly 40 to 60 per cent over buildings constructed between 1955 and 1975, without additional construction cost and without lowering comfort standards," he claims.

The "lean," however, is only the most visible aspect of many new energy-saving ideas and advanced technology which have been designed into the 471,000 sq ft building.

Further to reduce summer solar heat gain, transparent glass has been kept to a functional and psychologically desirable minimum. On the east and west facades windows have been eliminated altogether. The surface of the walls is opaque reflective glass and 75 per cent of the tower's exterior walls are as insulated as refrigerated rooms.

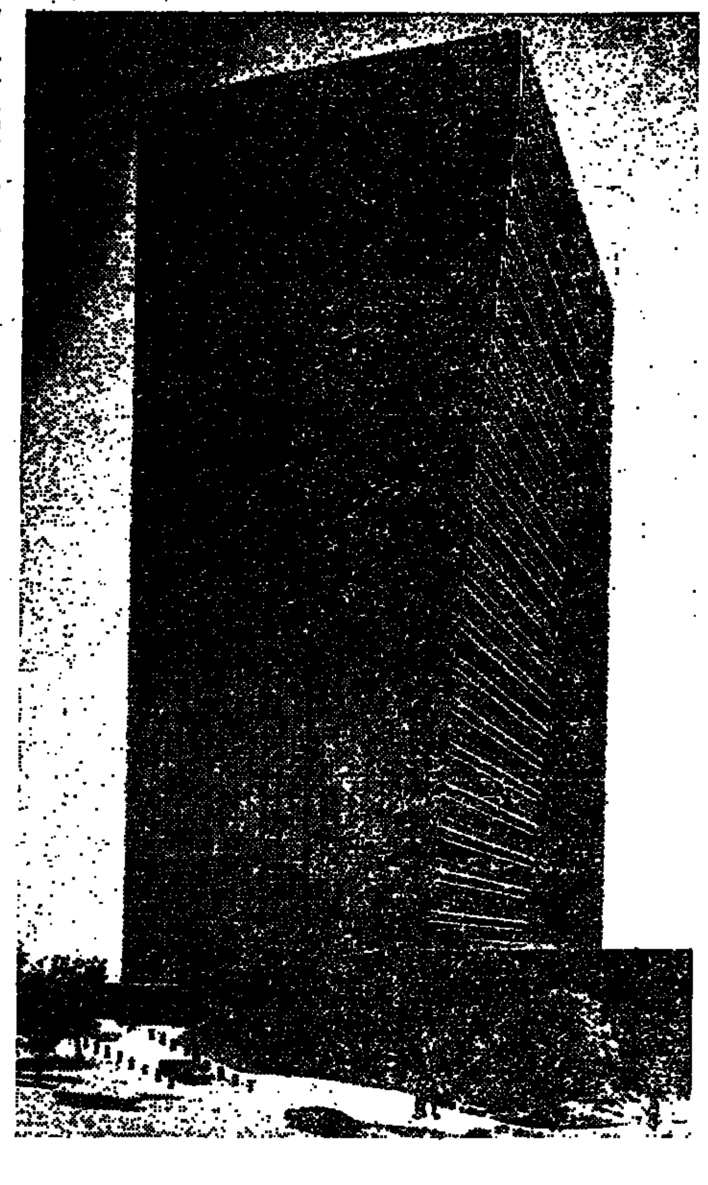
Lift and mechanical shafts, for example, are against the outside walls to provide additional insulation. All round-the-clock functions are grouped together so that the entire building does not need continuous air-conditioning.

Advanced sodium vapour lighting focuses illumination on work areas instead of dispersing higher than necessary light throughout rooms. The lighting system consumes about 0.8 watts per square foot, which is 4 to 7 watts less than typical modern American office buildings.

Each floor has its own independently controlled air handling unit which makes it easier to achieve uniform air distribution and to accommodate varying and extended working hours for different departments. It automatically uses outside air when at acceptable temperatures.

The problems of peak energy demand are diminished by the use of a hot and cold water storage system. Water is chilled, for example, at off-peak times and stored in a 300,000 gallon underground tank for later use.

The building is operating at a level that indicates an annual rate of about 34,000 Btus/sq ft total annual consumption against an Atlanta average of 94,540 Btus/sq ft for high rise office buildings.



Advanced energy saving concepts dictated the distinctive wedge-shaped design of this building in Atlanta, Georgia. Headquarters of Georgia Power, the building's stepped south face creates shade in the summer and collects the sun's heat in the winter. It is claimed that this building uses 65 per cent less energy than others of comparable size.

Marketing the skills of the chartered surveyors

LIKE THE Institute of Chartered Accountants, and other professional bodies for that matter, the Royal Institution of Chartered Surveyors seems to have acknowledged a new order of life.

Professional competence and integrity need to be demonstrated publicly at institutional level — especially when the public is inclined more than ever before to question the role of the professions, and the activities of their members.

The posting of Mrs Jenny Evans as Director of Appointments at Surveyors' Appointments Consultancy is, in a sense, indicative.

It comes at a time when the RICS has just celebrated the centenary of the granting of its Royal Charter—but this is also a point in time when the surveying profession is deeply engaged in an intensive self-analysis and reappraisal of its activities to ensure that its practitioners stay abreast of the times.

When times are changing—as they certainly have been in recent years — a new RICS appointments service to market the skills of chartered surveyors in general practice and chartered quantity surveyors, building surveyors, land and hydrographic surveyors would seem, at the least, to be appropriate.

It is a big profession. The RICS has the responsibility of leadership for its 57,000 members working in Britain and abroad. Mrs Evans has the right background for the job. She has spent many years in personnel administration, recently recruiting at all levels for a large international road transport engineering group with 110 overseas companies.

She has also worked in Africa and the Far East, which is one way to emphasise SAC's ambitions in building up overseas appointments.

As Mr Geoffrey Edwards, chairman of SAC's parent company Surveyors Holdings—wholly-owned by the RICS and itself operational only from the beginning of this year—said last week, the U.S. is thinking very seriously about developing parallel professional standards in this field, quantity surveyors being a particular example.

Surveyors Holdings is not imposing restrictions on its appointments business: "it will not," noted Mr Edwards, "just be for RICS members, employing RICS members." SH has other ambitions, which are also pretty immediate.

"Eventually," said Mrs Evans last week, "we will be handling amalgamations and mergers services for the profession as well. We will be hoping to start that operation off at the beginning of 1982."

SH, said Mr Edwards, saw itself as a marriage broker rather than a merchant banker and foresees this operation dealing with private practice consultancies rather than limited companies.

Building surveying, says the RICS, is the most expensive at the present time. In-house teams for major companies in the contracting industry have expanded considerably. What the RICS wants to ensure is that its appointments service can add to the quality of those in-house teams, and increase the variety of employers available to its members.

WILLIAM COCHRANE

Volatile profession

HOWEVER depressed the construction and allied industries might seem to be in the UK, chartered surveying is a profession which is certainly volatile, and arguably dynamic.

Recent, and apparently more encouraging, monthly figures on new orders for UK construction companies have been attacked, criticised and denied by industry bosses, with a degree of desperation in their sheer volubility.

But nobody seems to be arguing too fiercely with the DoE's indication that private and commercial orders, with real underlying strength, are providing the bulk of the "growth" which has appeared in the statistics in recent months.

The industrial and commercial market is evolutionary in its content. Today's high technology offices might become the ultra-light industrial factories of the future.

Up in the Wirral, the Council's plans for the 50-acre Upton Science Park just announced imply a degree of interchangeability between high technology industry, offices and research units—not to mention the environmental advantages of a built-up floor space ratio of only 15 to 20 per cent of the total site, and that allowing for some building on two floors.

In shopping, where the pace of improvement can be patchy since this is one area where obsolescence (and, sometimes, limited redesign) occurs as the expense and inclination of the tenant, evolution particularly in design terms is taking place at a rate of knots, as new town and shopping centres are designed and built.

Wallis projects

MAZDA CAR Imports has awarded a £2¼m contract to G. E. Wallis and Sons to construct new office buildings at Tunbridge Wells, Kent, to be completed by late 1982.

The building company announces a £1m win from the WPHT Housing Association for 52 flats in a sheltered housing scheme at St George's Drive, Pimlico, London, W1, and a £300,000 DoE contract for modernising the Duke of York's Headquarters in Chelsea's Kings Road.

£28m Irish gas line

THE IRISH state-owned Corporation Bord Gais has awarded a £28m contract to Nacap, Delft, for laying a 225 km 18-inch gas-pipeline from Cork to Dublin. The contractor is a subsidiary of Royal Boskalis Westminster.

The work will be a joint venture with Irishenco, which has a 30 per cent interest. Engineering aspects of the contract will be carried out in co-operation with Dublin-based Kenny Engineering and Gas Unie Engineering, Netherlands. Work is due to commence at the beginning of April 1982 and should be completed by the end of the year.

£1.2m depot for brewery

SCOTTISH AND NEWCASTLE BREWERIES has awarded a contract worth £1.2m for its Glasgow south distribution depot on the Hillington industrial estate to Gilbert Ash Scotland, a Bovis company.

The depot consists of three buildings—a single-storey warehouse on a structural steel frame with facing dado walling and pressed steel sheeted wall with corrugated asbestos roof cladding; a mess block and an office block. Total building complex amounts to nearly 5,000 sq metres and the building price includes car parking, yards, access roads and a degree of landscaping. The project will be completed at the end of August 1982.

£7.3m hotel development

CONSTRUCTION OF the Nottingham Royal Hotel—part of the Theatre Royal development in the heart of the city—has been awarded to Higgs and Hill Building Midlands region. The £7.3m contract was placed by Pickering Investments.

The development comprises a 10-storey 191-room hotel, including a penthouse, a conference and banqueting suite, restaurant arcade, staff facilities, and parking for 700 cars. Leisure facilities to be included are squash courts, a gymnasium, solarium, sauna and jacuzzi.

Fully air conditioned, the building will be clad externally with solar reflecting glass curtain walling. Clad in exposed aggregate pre-cast concrete panels, the car park has eight split-level floors.

Gross area of the development will amount to over 25,000 sq metres—11,100 sq metres for the hotel and 14,000 sq metres for the car park. Completion due 102 weeks after site possession.

£6.7m for French Kier

FRENCH KIER CONSTRUCTION, a member of the French Kier Group, has been awarded two contracts together worth £6.76m.

The first, from Strathclyde Regional Council, is for the construction of the A78-Loans by-pass Dundonald Camp to Monkton diversion, Ayrshire. Valued at £6.26m, work includes construction of 6.2km of two-lane dual carriageway; two interchanges, associated minor roadworks and seven culverts. Principal structures include two single-span and three triple-span road bridges, and a single-span bridge over the Kilmarnock-Ayr railway line.

The second contract, valued at £500,000, has been awarded by the National Coal Board Opencast Executive for the construction of an access road for the proposed Keirsbeath opencast site.

Sri Lanka powerlines

EVE CONSTRUCTION has been awarded a £2.6m contract by the Mahaweli Authority of Sri Lanka for a 220 kV double circuit transmission line on steel towers between Victoria power station and Kotmale.

This 30 km length of line, forming part of the Victoria dam and hydro electric project, will traverse steep valleys, paddy fields, tea estates and open ground in the region of the ancient city of Kandy.

AROUND THE INDUSTRY

● John Laing Construction has been awarded the contract for all foundations and underground services for the office building on the Esso cracker site at Mossmorran. This contract is worth over £800,000.

● The £380,000 contract for designing and manufacturing the curtain walling and windows for phase two of The Sun Life Court development in Bristol has been won by Allan H. Williams. The company has already completed the first phase of this development.

● Sigmund Pulsometer Projects, a member of the SPP Group, is to supply and instal pumps and associated equipment for a sewage pumping station at Redcar, under a contract valued at over £190,000 placed by the Northumbrian Water Authority. The equipment includes four dual-speed sewage pumpsets, pipework and valves. The contract also covers design of the pumping station layout as well as sump model testing to be undertaken in the SPP laboratories.

The contract forms an important part of Phase 1 of the Langbaurgh regional scheme in which existing sewage outfalls are to be intercepted by a new trunk sewer and conveyed by gravity to the pumping station from where it is to be pumped to a preliminary treatment works at Marske.

● John Booth and Sons (Bolton) has introduced a lightweight fire resistant cladding system for offshore oil and gas production platforms. The system, in carbon steel or stainless steel, is modular and offers weight savings. It has been fire tested in accordance with BS 476 Part 8, IMCO and SOLAS requirements, and certified by authorities including Lloyds Register of Shipping and Det Norske Veritas.

● Kelsey Building Products, a division of Kelsey Industries, has launched a product which the company believes will revolutionise roof guttering — the Kelsey Hydroglas industrial rainwater system. This provides an industrial rainwater system that is maintenance free. The material, which incorporates five separate layers of glass-fibre, is saturated in a resin bath, then pulled through heated chrome steel dies. The result is a smooth face, externally and internally, that will not harbour dirt and cannot corrode. Material thickness is 3mm nominal, and a typical 3 metre length weighs 9 kg.

● A protein-based liquid foaming agent Cormix AE6 has just been launched by the Cormix division of the Unilever chemical company Joseph Crosfield and Sons. It has been designed for use with all types of lightweight aggregates, both natural and synthetic, for the production of low density concrete. The manufacturer claims that it is effective with mixes containing a high proportion of pulverised fuel ash and is also suitable for use in all types of grout, mortar and concrete mixes. More on 0925 31211.

● Thos. W. Ward (Railway Engineers) has an order worth over £1m for railtrack, switches and crossings for a central loading system at Shell UK Oil's Shell Haven refinery at Stanford-le-Hope, Essex. The company will design, supply and instal 8,600 metres of track, 37 turnouts, four sets of buffer stops and 18,000 cu. metres of ballast for the contract which will allow 11 different grades and types of oil product to be loaded on each of two tracks via overhead gantries.

● The Transport Department has announced the making of the line and side roads orders for the proposed bypass of the village of Broughton on the A43 trunk road in Northamptonshire. The bypass will cost in the region of £2.2m. Construction of the bypass is expected to start next year and will take about two years to complete.

● A product has been developed by East Sussex County engineer's department and local suppliers, Mountfield Roadstone to find a productive use for reject stone normally suitable only as rock fill—the stone is being used as macadam after coating with bitumen, for repairing roadside edges. It can also be used in road construction in place of the usual "lean concrete" roadbase. Benefits include a cash saving of nearly £2 per tonne—with cheaper transport because the stone is quarried locally.

● The 1982 edition of the Korrugal Handbook is a much larger and more detailed reference book. It claims to provide a comprehensive reference to the theory and practice of designing and installing Korrugal aluminium building sheet. The handbook is available free of charge from Granges Essem (UK), 1-9, Telford Road, East Lenziemill, Cumbernauld, Strathclyde G67 2AX.

● "Reliability and performance of solar collector systems," Building Research Establishment Digest 254, gives guidance for the design and installation of systems which will aid the avoidance of defects and poor thermal performance. It discusses some of the more common problems and their possible solutions and gives guidance on methods of checking system operation. Copies are available from HMSO, price 50p each (plus postage).

● An awards scheme has been launched by Building Services (the Journal of the Chartered Institution of Building Services) to seek out and reward designers whose buildings use as little energy as possible while fulfilling the task for which they were built.

● Commercial version of the Beaumont Safety Award Winner (a steel storage cage for LPG gas bottles) has been launched by Pilcon Engineering of Costain Group based at Basingstoke, Hants.

● Anglo-Japanese consortium (Peat, Marwick, Mitchell, Hitachi Cable and W. F. Johnson and Partners) has been awarded a consultancy contract worth £1m in professional fees to undertake a project for a proposed factory in Jordan to produce cables for the expansion of the country's electric power and telecommunication networks, and also for export.

TELEVISION

BBC 1

9.08 am For Schools, Colleges. 10.00 You and Me. 10.15-12.07 pm For Schools, Colleges. 12.30 News After Noon. 12.57 Regional News for England (except London) London and S.E. only: Financial Report, and News Headlines with sub-titles. 1.00 Pebble Mill at One. 1.45 Chock-a-Block. 2.01 For Schools, Colleges. 3.00 See Hear! 3.25 Delia Smith's Cookery Course. 3.53 Regional News for England (except London). 3.55 Play School. †4.20 Laurel and Hardy in "Squawking Squatter." 4.25 Jackanory. 4.40 Jigsaw. 5.05 Newsround. 5.10 Blue Peter.

5.40 News.
6.00 Nationwide (London and South East only).
6.25 Nationwide.
6.55 Angels.
7.20 Blake's Seven.
8.10 Panorama.
9.00 News.
9.25 The Monday Film: "Shaft's Big Score!" starring Richard Roundtree.
11.05 Film '81.
11.38 News Headlines.
11.40 Speak for Yourself.

BBC1 VARIATIONS: Cymru/Wales—12.57-1.00 pm News of Wales. 1.45-2.00 Pili Pala. 6.00-6.25 Wales Today. 6.55-7.20 Heddiw. 9.25 Gwen Tomos. 10.15-11.05 Bonanza. 12.05 am News and Weather for Wales.

Northern Ireland—12.57-1.00 pm Northern Ireland News. 3.53-3.55 Northern Ireland News. 6.00-6.25 Scene Around Six. 12.05 am News and Weather for Northern Ireland.

Chris Dunkley: Tonight's Choice

Cities housing ancient universities share a quality which, though indefinable, is unmistakable: physically Aberdeen, Bologna and Cambridge could hardly be more different, yet centuries of accommodating young students have given them an atmosphere in common. It will be interesting to see whether Hugh Sykes Davies, an undergraduate in the twenties, former Communist, and long time fellow of St. John's, manages to convey this spirit when he describes Cambridge in **Tales Of Twelve Cities** on BBC-2.

Immediately after him comes the latest part of International Snooker and if you are hooked nothing anybody can say will stop you watching. Steve Davis is captaining the English team which is heavily tipped to win the trophy from Wales, the holders. BBC-2 carries two more reports later.

ITV's new series **Astronauts** is written by Graeme Garden and Bill Oddie, two of The Goodies, though they don't appear. It sounds like a true situation comedy: Britain's first team to be sent into space comprises two men, one woman and a dog and, we are told, "when the great day of the launch dawns the eyes of the nation are on the dog, the eyes of the media are on the woman, and the men must get by on a stiff upper lip." Makes a change from one-parent families in the suburbs, I suppose.

BBC 2

10.10 am Supervisors.
10.35 Speak for Yourself.
11.00 Play School.
11.25 Write Away.
1.55 pm A Woman's Place?
2.20 Let's Go.
2.35 Inside Japan.
3.05 Television World.
3.30 Community School.
3.55 Snooker: State Express World Team Classic.
6.55 News Summary.
7.00 Tale of Twelve Cities.
7.40 Snooker.
8.10 Des O'Connor Tonight.
9.00 A Kick up the Eighties.
9.30 Horizon.
10.20 Snooker.
10.45 Newsnight.
11.30 Snooker.
11.45-12.15 am Heute Direkt.

LONDON

9.30 am Schools Programmes. 12.00 Cockleshell Bay. 12.10 pm Rainbow. 12.30 Wild, Wild World of Animals. 1.00 News, plus F.T. Index. 1.20 *Thames News*, with Robin Houston. 1.30 Farmhouse Kitchen. 2.00 Money-Go-Round. 2.30 Monday Matinee: Ida Lupino, David Hartman and Terry-Thomas in "I Love a Mystery." 4.15 Go Fly a Kit. 4.20 The Sooty Show presented by Matthew Corbett. 4.45 Dangermouse with the voices of David Jason, Terry Scott, Edward Kelsey and Brian Trueman. 4.55 Stig of the Dump. 5.15 Botanic Man: David Bellamy in "Crackpot Jackpot."

5.45 News.
6.00 Thames News, with Andrew Gardner, Rita Carter.
6.25 *Help!*
6.35 Crossroads.
7.00 Bullseye.
7.30 Coronation Street.
8.00 Astronauts.
8.30 World in Action.
9.00 Quincy, starring Jack Klugman.
10.00 pm News At Ten.
10.30 The Monday Thriller: Richard Roundtree and Frank Finlay in "Shaft in Africa."
12.25 am Close: Sit Up and Listen with Lord Willis.

†Indicates programme in black and white

All IBA Regions as London except at the following times.

ANGLIA

12.30 pm Botanic Man. 1.20 Anglia News. †2.30 Monday Film Matinee: "Blood on the Sun," starring James Cagney. 5.15 University Challenge. 6.00 About Anglia. 6.30 Survival. 10.30 Anglia Reports: Alison Leigh reports on the financial difficulties of the Mercury Theatre, Colchester. 11.00 A New Kind of Family. 11.30 The Monte Carlo Show. 12.30 am Reflection.

ATV

12.30 pm Botanic Man. 2.00 *Tenspeed and Brown Shoe*. 3.45 Money-Go-Round. 5.15 Joe 90. 6.00 ATV Today. 10.30 Left, Right and Centre. 11.10 ATV News. 11.15 The New Avengers.

BORDER

12.30 pm Botanic Man. 1.20 Border News. 2.00 Matinee: "Double Bunk," starring Ian Carmichael and Janette Scott. 3.45 Money-Go-Round. 5.15 Survival. 6.00 Lookaround Monday. 6.15 The Spinners and Food. 6.45 The Black and White Picture Show. 10.30 George and Mildred. 11.00 RL Action. 11.45 Border News Summary.

CHANNEL

12.30 pm Botanic Man. 1.20 Channel Lunchtime News, What's On Where and Weather. 2.00 The Monday Matinee: "Ring of Fire." 3.45 Money-Go-Round. 5.15 Happy Days. 6.00 Channel Report. 6.35 Encore. 10.28 Channel Late News. 10.34 Ladies Man. 11.00 That's Hollywood. 11.30 News and Weather in French.

GRAMPIAN

9.25 am First Thing. 12.30 pm Botanic Man. 1.20 North News. 2.00 Money-Go-Round. †2.30 Monday Matinee: "The Farmer's Daughter," starring Loretta Young, Joseph Cotten, and Ethel Barrymore. 5.15 Mork and Mindy. 6.00 North Tonight. 6.30 Country Focus. 10.30 *The New Avengers*. 11.30 Cover to Cover. 12.10 Going Out. 12.30 am North Headlines.

GRANADA

12.30 pm Botanic Man. 1.20 Granada Reports. 2.00 Money-Go-Round. 2.30 Monday Matinee: "Rattle of a Simple Man." 5.15 Give Us A Clue. 6.00 Granada Reports. 10.30 Ladies' Man. 11.00 RL Action. 11.45 Hagen.

HTV

12.30 pm Botanic Man. 1.20 HTV News. 2.00 Money-Go-Round. 2.30 "The Games," starring Michael Crawford, Stanley Baker, Ryan O'Neal and Charles Aznavour. 5.15 The Flintstones. 6.00 Report West. 10.28 HTV News. 10.30 "Two Mules for Sister Sara," starring Shirley MacLaine and Clint Eastwood.

HTV Cymru/Wales—As HTV West except: 12.00-12.10 pm Ffalabalam. 4.45-5.15 Ser. 6.00 Y Dydd. 6.25-7.00 Report Wales. 8.30-9.00 Yr Wythnos.

SCOTTISH

12.30 pm Botanic Man. 1.20 News and Road and Weather. 2.00 Monday Matinee: "Sands of the Desert," starring Charlie Drake. 3.45 Money-Go-Round. 5.15 Emmerdale Farm. 6.00 Scotland Today. 6.40 Crimedesk. 10.30 Showcase Theatre (preview). 11.00 Masterclass 1. 11.30 Late Call. 11.35 *Hammer House of Horror*: "The Silent Scream," starring Peter Cushing.

SOUTHERN

12.30 pm Botanic Man. 1.20 Southern News. 2.00 Houseparty. 2.25 "The New Daughters of Joshua Cabe." 3.45 Money-Go-Round. 5.15 Happy Days. 6.00 Day by Day. 10.30 Thriller "Melody of Hate." 12.00 Superstar Profile.

TYNE TEES

9.20 am The Good Word. 9.25 North East News. 12.30 pm Botanic Man. 1.20 North East News and Lookaround. 2.00 Money-Go-Round. 12.30 Monday Matinee: "Nurse Edith Cavell," starring Anna Neagle. 4.15 Cartoon Time. 5.15 Happy Days. 6.00 North East News. 6.02 Give Us A Clue. 6.30 Northern Life. 10.30 North East News. 10.32 Briefing. 11.15 Lou Grant. 12.15 am Brazilian Brothers.

ULSTER

12.30 pm Botanic Man. 1.20 Lunchtime. 2.00 Money-Go-Round. 2.30 Monday Matinee: "Christopher Columbus," starring Frederic March and Francis L. Sullivan. 4.13 Ulster News. 5.15 Joe 90. 6.00 Good Evening Ulster. 10.30 Ulster Landscapes. 11.00 Roots. 11.30 Bedtime.

WESTWARD

12.30 pm Botanic Man. 1.20 Westward News Headlines. 2.00 The Monday Matinee: "Ring of Fire," starring David Janssen. 3.42 Gus Honeybun's Birthdays. 3.45 Money-Go-Round. 5.15 Happy Days. 6.00 Westward Diary. 10.32 Westward Late News. 10.34 Ladies Man. 11.00 That's Hollywood. 11.30 Faith for Life. 11.35 West Country Weather and Shipping Forecast.

YORKSHIRE

12.30 pm Botanic Man. 1.20 Calendar News. 2.00 Money-Go-Round. 2.30 Monday Matinee: "The Catcher." 5.15 Survival. 6.00 Calendar (Emley Moor and Belmont editions). 6.35 It's A Vet's Life. 10.30 Benson. 11.00 RL Action. 11.45 Run From The Morning.

RADIO

(S) Stereophonic broadcast
‡Medium wave

5.00 am As Radio 2. 7.00 Mike Read. 9.00 Simon Bates. 11.30 Dave Lee Travis. 2.00 pm Paul Burnett. 3.30 Steve Wright. 5.00 Peter Powell. 7.00 Stayin' Alive. 8.00 David Jensen. 10.00-12.00 John Peel (S).

RADIO 2

5.00 am Ray Moore (S). 7.30 Terry Wogan (S). 10.00 Jimmy Young (S). 12.00 John Dunn (S). 2.00 Ed Stewart (S). 4.00 David Hamilton (S). 5.45 News, Sport. 6.00 David Symonds with Much More Music (S). 8.00 Folk On 2 (S). 9.00 Humphrey Lyttelton with the Best of Jazz (S). 9.55 Sports Desk. 10.00 Pop Score. 10.30 Star Sound. 11.00 Brian Matthew with Round Midnight. 1.00 am Truckers' Hour (S). 2.00-5.00 Two's Company (S).

RADIO 3

6.55 am Weather. 7.00 News. 7.05 Morning Concert (S). 8.00 News. 8.05 Morning Concert (continued). 9.00 News. 9.05 This Week's Composer: Arcangelo Corelli (S). 9.45 Northern Sinfonia Orchestra (S). 10.35 Boyce, Arne and Greene (S). 12.00 BBC Scottish Symphony Orchestra (S). 1.00 News. 1.05 BBC Lunchtime Concert (S). 2.05 Matinee Musicale (S). 3.05 New Records (S). 4.55 News. 5.00 Mainly for Pleasure (S). 7.00 Picasso—Creator or Destroyer? (S). 8.00 Bach concert (S). 8.30 "Un Giorno di Regno," Comic opera in two acts by Verdi, from the Wexford Festival (sung in Italian), Act 1 (S). 9.30 Livings. 9.55 "Un Giorno di Regno," Act 2 (S). 11.00 News. 11.05-11.15 Vivaldi (S).

RADIO 4

6.00 am News Briefing. 6.10 Farming Week. 6.25 Shipping Forecast. 6.30 Today. 8.35 The Week on 4. 8.45 Miles Kington with recordings from the BBC Sound Archives. 9.00 News. 9.05 Start the Week with Richard Baker. 10.00 News. 10.02 Money Box. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.05 Down Your Way. 11.50 Poetry Please. 12.00 News. 12.02 pm You and Yours. 12.27 The News Quiz in the City (S). 12.55 Weather; Programme News. 1.00 The World At One. 1.40 The Archers. 1.55 Shipping Forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Afternoon Theatre. 4.35 What a Job! 4.45 Story Time. 5.00 PM News Magazine. 5.50 Shipping Forecast. 5.55 Weather; Programme News. 6.00 News including Financial Report. 6.30 I'm Sorry I haven't a Clue (S). 7.00 News. 7.05 The Archers. 7.20 Start the week with Richard Baker. 8.00 The Monday Play (S). 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 Science Now. 11.00 A Book at Bedtime. 11.15 The Financial World Tonight. 11.30 Today in Parliament. 12.00 News.

A case for clear verdicts

THE WEEK IN THE COURTS
BY JUSTINIAN

COURTS OF LAW are confidently expected to adjudicate between rival disputants in such a way that winners and losers are readily identifiable.

Sometimes of course the verdict of the court is less clear cut: each disputant wins a bit of his claim or counter claim, but the result is nevertheless intelligible.

More often it is the reasoning behind the verdict that is less than crystal clear. To the extent that the reasoning applies exclusively to the instant judgment it may matter little to the parties, although any obscurity in the way in which the court has arrived at its decision may not assist the parties in deciding whether to appeal.

But when the court's reasoning relates to legal issues, it is vital that it should be immediately intelligible to a wider audience than the litigating parties as the audience will be looking to the court's ruling as a precedent.

English judges have a tolerable good record for the clarity of their judgments. However, when cases are subjected to multiple judgments in the Court of Appeal or, more frequently, in the House of Lords, it is sometimes difficult to discern the common denominator of multiple reasons expressed in three or five separate judgments, which produce the same legal result. (Dissenting judgments, because they do not concur in the court's judgment, often illumine the rival contentions.)

But the alternative practice of producing one composite judgment from all the assenting judges does not necessarily cure that potential defect. Indeed the practice of the European court of justice at Luxembourg of invariably delivering a single judgment of sometimes nine judges—the full complement of judges has recently been increased to 11—has shown that too many judicial cooks can frequently spoil the legal broth.

The contrast between the court's judgments and the single handed opinion of the advocates-general provide a stark contrast, not only in style and content, but in clarity of exposition so vital towards developing a coherent jurisprudence.

And it is not just in the reasoning that one finds infelicities of expression but often outright obscurities. Too often for comfort the answers given to questions asked by the courts of the member states disclose the awkwardness of compromised views and fail to supply satisfactory solutions.

A recent example will suffice. Lord Bruce of Donington was designated by the House of Lords as a member of the European Parliament from 1975 to 1979, when elections by direct universal suffrage began. An inspector of taxes contended that all MEPs' allowances for travel and subsistence constituted emoluments from an "office" held by the member and hence taxable in the UK under Schedule E.

The question referred by the special commissioners for the European court's interpretation was whether EEC law precluded such allowances from being taxed at all, and if it did not, whether it imposed any limitation on the power of a member state to tax such allowances.

The allowances were paid at a flat rate, on condition that the member's name appeared on the attendance register. For most of the period the subsistence allowance was approximately £42 per day.

The travel allowance was calculated on the distance between the point of departure and the place of meeting. Members were not required to account for their actual expenses. If they spent less than their allowance any surplus was theirs.

The dispute between Lord Bruce and the UK tax authorities resolved itself into a narrow issue. The revenue insisted that the surplus left in Lord Bruce's hands after deducting his actual disbursements was taxable by member states.

Lord Bruce accepted the possibility that if actual expenses were deductible the balance could be taxable, no doubt reflecting that, generous though the allowances were, he could easily spend them all on his subsistence and travel, leaving nothing for the tax man to get his hands on.

On September 15 the European Court gave its answer. "Community law prohibits the imposition of national tax on lump sum payments made by the European Parliament to its members from Community funds by way of reimbursements of travel and subsistence expenses, unless it can be shown in accordance with *Community law* that such lump sum reimbursements constitutes, in part remuneration."

On that ruling who won the dispute? A measure of the Court's failure to declare unequivocally the victor can be gauged from the Press reaction.

This paper headed the report from its Brussels correspondent "Euro-MPs may face tax demands," which accurately reflected the correspondent's opening paragraph that MEPs "could be liable to pay UK tax on some of their controversial parliamentary expenses."

The Times headed its correspondent's report "Taxmen lose case in Europe," summarising the opening paragraph: "Special commissioners of Inland Revenue in Britain have lost a test case in the European Court on taxing lump sum travel and subsistence payments."

The UK's advocate general, Sir Gordon Slynn, in his opinion to the court seemed to say that the amount of expenses reasonably incurred by an MEP in performance of his duties could not be taxed nationally, but that any surplus on travel and subsistence expenditure could be taxed.

The court appeared to reject any idea of examining the individual MEPs case to see whether each member has exceeded his allowance—an inquiry into any surplus to personal requirements.

Rather the question is whether the expenses as a whole constitute a disguised form of remuneration irrespective of the members' personal circumstances.

It will not be surprising if the Special Commissioners, when they come to apply the European court's ruling to the assessment on Lord Bruce, may find it necessary to make a further reference to the court, asking it to explain itself which is hardly a shining example of the desired collaborative effort between the work of national tribunals and the European Court.

Brave Oxford must keep going

RUGBY
BY PETER ROBBINS

WITH SIX weeks to go to the centenary Varsity match, it is perhaps a little early to make a firm prediction, but an Oxford victory seems likely on December 8.

The Dark Blues' mid-week efforts against the Australians were courageous and intelligent and showed exemplary defence, particularly by Millerchip at full-back.

Most importantly, the forward performance was well-orchestrated and tidy. Given the steadiness of Luddington at scrum-half and the wit of Barnes, Oxford have the ability to bring clever runners like Halliday and the vastly experienced Wyatt into play.

Victory against Northampton on Saturday must add to the confidence, but the problem will be to ensure that the players do not go off the boil prematurely.

I saw Cambridge well beaten 0—31 by Richmond on Saturday and it was unfortunate that such an enjoyable game, stylishly played, should be marred by injuries to two Cambridge players.

First Horner, the flanker, broke a leg and will therefore miss the Varsity match — really a serious blow because he and Macklin and Allchurch are a very good back row. Before his injury, Horner had supported well and tackled with a fierceness not emulated by many of his team-mates.

Macklin, the No. 8, was also taken off but his injuries are reported to be not as bad as had been feared. Cambridge will certainly need his skill at the back of the line-out but, his aggressive tackling and his tidying up at the breakdown.

Allchurch has filled out a lot and as yet is not really fit, but is compensates by a wider experience.

The real problem is in the tight forwards where Cambridge need to find 51 solid pushers and a good No. 4 jumper. Lillington, the Scottish squad member, is recovering from injury and last year's Blue, Biddell, may also be recalled.

There is a massive amount of work to be done but Tony Rodgers, the coach, is confident it will be.

The centre play of Hoskin and O'Brien was not really satisfactory, although O'Brien put in some fine tackling. McGahey is expected to return with Tyler the winger, and it is essential that Cambridge establish some sort of basic rhythm before the offbeat interventions of Marcus Rose can be introduced.

He did not seem terribly interested on Saturday but the other Cambridge international, Huw Davies, the captain, responded splendidly to Richmond's own piercing attacks.

Rose and Davies are obvious matchwinners, but there must be a tendency to place too much responsibility on them—and if that weighs heavily problems will arise.

It is so good to see a well-disciplined and fit Richmond side again. There seems to be a new spirit abroad and the forward play demonstrated that a lot of hard work has been done.

Sharp, the captain, must take credit for this, and all the forwards can be pleased with the support they gave to the ball carrier.

Richmond have a competent half-back pair in Conner and Green, and Preston in the centre still shows his international touch. But the major threats and inspiration came from Lewis, their Gallic-looking fullback whose daring counter-attacks caused Cambridge so many problems and the sizeable crowd much pleasure.

It was Lewis who made room for Richmond's most dangerous player, Williams, on the right wing. It would be interesting to know where his national qualifications lie. On this form, Richmond, happily revived, will upset quite a few sides this year.

Players miss the Maine chance

SOCCER

ALTHOUGH NO goals were scored in the meeting between Manchester City and Nottingham Forest at Maine Road on Saturday, there was no shortage of opportunities, especially during the first half.

Both teams squandered numerous comparatively easy scoring chances; both 'keepers made good saves and, in the circumstances, a draw was probably a fair result to a game which started promisingly, but fizzled out midway through the second half.

There is a similarity in style between the managers of these two clubs, Brian Clough and John Bond.

As a result of their successful, often controversial managerial activities, willingness to express their feelings loudly, if not always wisely, big spending, and natural flamboyance they have become personalities in their own right, commanding bigger headlines than their players.

The Clough-Taylor combination took Derby County and Nottingham Forest—two Midland clubs with limited support—from Division Two backwaters to capture the First Division championship and on to glory in Europe.

This pair is now rebuilding the Forest team which won the European Cup.

Six players have been sold since the start of last season and it would come as no surprise if this remarkable pair should decide that now is the time to move to pastures new and perform a third footballing miracle.

On the evidence of one match, on a very slippery surface, and indifferently controlled by a referee who allowed several diabolical tackles to go unpunished, it is unfair to judge a side's potential, but Forest looked no better than a competent top-half-of-the-table outfit.

However, Fashanu was the most impressive centre-forward I have seen this season. He has strength, excellent control, height, determination and enthusiasm so that he threatened danger every time he had the ball and provided his partner Wallace with the service and protection he required.

In mid-field the visitors were far less convincing. Their quartet worked hard, but they seemed, with the exception of Robertson, short of ideas and too many passes were off-target.

Nevertheless, Gray and Proctor are young and steadily improving, while with some of the £1.5m received from selling Francis and Burns it should be possible to find replacements for the unsettled Robertson and the long-serving McGovern.

It would not be enough to buy two quality players — equally important they must also be prepared to accept and fit into the Clough regime.

John Bond, on what by First Division standards was a shoestring budget, did very well at Norwich.

When he arrived at Manchester last year he found them struggling. He immediately made several astute purchases; gave his team some of the confidence they had lacked, steered them to respectability in the league and took them to Wembley, possibly more on enthusiasm than ability.

He has strengthened his side this season by buying several new players including Francis, out of action through injury.

It has not yet worked as well as he hoped, or City supporters demand.

Against Forest, his team showed an abundance of skill and bite in mid-field, but their finishing was indifferent, while their back four were so uneasy that one wondered whether they were being employed in their most effective positions.

Although, after Manchester United, they are commanding the best home support in the country, they will have to produce better form to sustain it.

Manchester City clearly have not yet reached their peak. If this occurs, as it should within the next month or so, they will represent a good bet for one of the two cups.

Win for April Run

RACING
BY DOMINIC WIGAN
NEW YORK, SATURDAY

APRIL RUN, who had looked a possibly unlucky Arc de Triomphe loser when coming from a long way back in the short Longchamp straight, gained some well-merited compensation here at Aqueduct.

Overcoming sticky conditions and a field of the "Arc" strength in the $300,000 Turf Classic, she proved just good enough for the *Man o'War* winner, Galaxy Libra.

However, her ultra-game performance in holding the even-money favourite in a fierce dual to the line was not met with much grace in some quarters.

On his way to the changing room after dismounting Philippe Paquet was heckled and booed by a small section of the crowd out of the bar long enough to incorrectly ascertain that an objection to the 5-2 winner had been lodged by Galaxy Libra's jockey, the ever-popular Shoemaker. It had, in fact, come from the rider of the horse in fourth place, Match the Hatch.

The stewards took only a short time to over-rule the objection, which leaves April Run on course to complete a remarkable double. On November 7 Mrs Bertram Firestone, who seemed a good deal more confident than her trainer, Francois Boutin before the Turf Classic, will be at Laurel to see April Run's follow-up bid in the Washington DC International.

If she wins, April Run will be well on course to join only three fillies (Allez France, Dahlia and Susan's Girl) to have topped the million-dollar winning figure.

The Vermeille winner, whose victims in the Turf Classic did not include the colic-suffering Argument, should achieve that but not, perhaps, before The Very One, the *six-year-old mare* just $8,000 short of it.

CHEPSTOW
1.30—Cinderwench***
2.00—Ackstatic**
4.00—Swinging Moon*

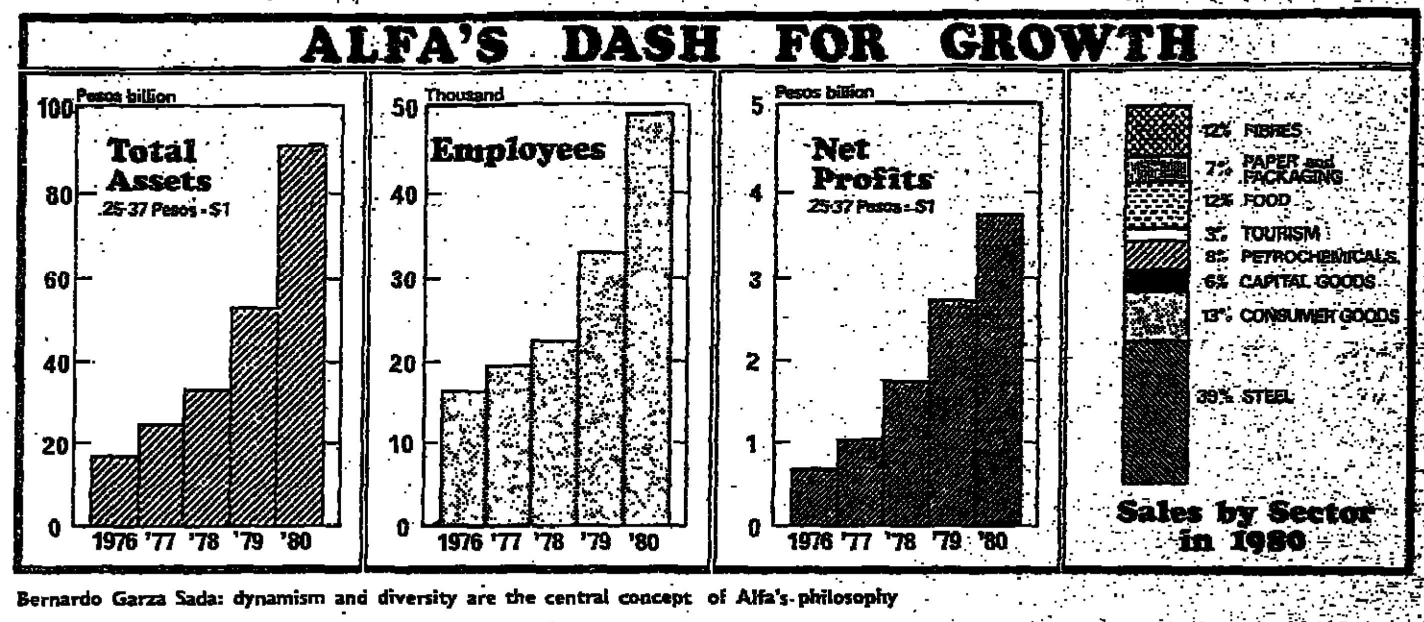
هكذا من الأصل

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

A front runner falters on the road from Monterrey

Alfa, Mexico's largest private group, has become overheated, like the country's economy. **William Chislett** reports



Bernardo Garza Sada: dynamism and diversity are the central concept of Alfa's philosophy

GRUPO Industrial Alfa, Mexico's largest holding company and the flagship of the country's private sector, is having to pay a high price for the dizzy rate at which it has taken advantage of the booming oil-rich Mexican economy and create an empire with interests ranging from steel to food processing.

For the past six years, "dynamism and diversity" to quote Bernardo Garza Sada, Alfa's chairman, have been the central concept of Alfa's philosophy. Between its formation in 1974, when the steel mill, Hylsa, and a packaging company were the core of the holding company, and 1980, Alfa's assets grew at an annual average rate of 53 per cent to 91bn pesos ($3.6bn) as it expanded into secondary petrochemicals, tourism, capital goods, fibres, and consumer goods.

Sales increased five-fold and net profits were a record 3.7bn pesos ($160m) last year.

In its drive to expand into barely established areas in Mexico, Alfa sought out the best technology and formed joint ventures with such household names as Dupont, BASF, Yamaha, Ford and Massey Ferguson.

In 1976, Alfa became the first Mexican enterprise to join the ranks of the "Fortune 500" largest corporations outside the U.S. The company is currently rated 230th.

Alfa, based in Monterrey, North Mexico, the home of Mexico's private sector, became synonymous with success and a symbol of dynamic management. The company hired the best executives, some of them Mexicans straight out of U.S. business schools, and it paid the highest salaries. Twelve per cent of its executives have completed post-graduate courses.

Its annual reports became more and more glossy and began to resemble coffee table books with their magnificent colour photographs.

But Alfa overextended itself and is now having to cut back. Net profits this year will plummet to about $80m. As a result, the company has been reorganised. Some 2,000 executives out of a total 50,000 employees were recently shed and more may go.

In October, Banobras, the Government's public works bank, in an unpublicised move, came to Alfa's rescue with a 17bn pesos ($680m) package to relieve its cash flow problem.

The basis of Alfa's problems is that it was too ambitious—it borrowed heavily abroad to finance new purchases and was then hit hard by the hike in interest rates and by other factors beyond its control. These included the relaxation of import controls, which caused many of Alfa's products to be undercut this year by the influx of foreign goods, though the situation has been eased since a licensing system for imports was re-introduced by the Government in June.

Just servicing its $2.3bn foreign debt will cost Alfa $110m more this year than last because of higher interest rates.

Like the Mexican economy as a whole, Alfa has become overheated. Indeed, its problems are viewed in Mexican business circles as a symptom of the overheating and inflation which high oil revenues, continued massive foreign borrowing and extravagant public expenditure have brought to the entire economy.

The roots of Alfa lie in the founding in 1891 by two Sephardic Jews, Isaac Garza and his brother-in-law, Francisco Sada, of the Cuauhtemoc brewery in Monterrey. A glass factory was later built to produce bottles, a plant to make bottle tops, a paper factory to produce labels and a bank to control the financing.

In 1973, the 81-year-old Eugenio Garza Sada, the son of Isaac Garza (the two founding families intermarried) was murdered. It was then decided to divide up the spoils. Eugenio's sons kept the brewery and Banca Serfin and formed a holding company called Grupo Visa. The sons of Eugenio's 83-year-old brother, Roberto, including Bernardo, formed Alfa in 1974, along with the steel company and the paper factory.

Spread the risk

At that time 90 per cent of Alfa's assets were in steel, a vulnerable sector. "We decided to expand less aggressively in steel and to move into other areas," recalls Jesus Guzman, Alfa's financial director.

The Government itself was enlarging the state steel sector and so Alfa decided to expand in five new areas—secondary petrochemicals, tourism, consumer goods, food, and capital goods—in order to spread its risk.

During 1975 and 1976, Alfa acquired the Las Hadas Hotel and 1,250 acres of Pacific coastline, a controlling interest in Nylon de Mexico in association with Dupont of the U.S., and a majority stake in Polioles (petrochemicals) in association with West Germany's BASF.

In electronics Alfa bought Philco Mexicana, a colour television company, from the Ford Motor Company.

The idea was to buy a "platform" in each of the five new sectors through taking over existing companies and revamping them. But it took Alfa longer than it had bargained for to make a success of its new ventures.

When Alfa bought the controlling interest in Nylon De Mexico, a synthetic fibres company, it found that its purchase coincided with a depression in the market and its two rivals in Mexico, Akzo, the Dutch company, and Celanese, had much better equipment than the obsolete machinery at Nylon de Mexico.

Dupont, Alfa's minority partner in Nylon de Mexico, had started to modernise the equipment just before Alfa bought its stake, but it took some three years to overcome the problems. "It was an apprenticeship for us," says Guzman.

With Philco, the colour television company, Alfa underestimated the Mexican banking system's ability to grant consumer credit. Only a small share of the credit available in Mexico goes towards financing the purchase of consumer goods. As a result, Alfa had to extend the financing period for its distributors to 200 days from its originally planned 45 days. And it had to confront the same problem when it bought other consumer goods companies.

Similarly, with its tourism real estate project on the Pacific Coast, Alfa found that it could not sell its expensive, luxurious flats and villas as quickly as planned because its clients could not get financing easily. All of this later produced cash-flow problems.

After this initial flurry of buying companies in 1975 and 1976, Alfa slowed down its rate of growth in order to consolidate its position. In 1977, Alfa only bought a fibres company to complement Nylon de Mexico.

But in 1978 Alfa once again went on a buying spree.

It bought Magnavox, a hi-fi company, and Admiral, which makes black and white televisions, two more petrochemical concerns and a cellulose plant, as well as forming a $53m joint venture with Ford for the production of aluminium motor heads.

This continued into 1979 and 1980 with the purchase of washing machine companies, and food processing plants.

Alfa's chief economist, Everardo Elizondo, made a fact-finding tour to the U.S. in 1980 to try to gauge the pulse of interest rates and came away, like so many others, with the firm impression that there would not be a substantial increase. Alfa, therefore, continued to borrow heavily abroad to finance its new operations.

"I did not get to see Mr Volcker, (Paul Volcker, chairman of the U.S. Federal Reserve)," says Elizondo, despondently.

High inflation, a new phenomenon in Mexico, coupled with the increase in international interest rates, caused both peso and dollar rates to soar in Mexico.

Mexico has no exchange controls and has to keep very closely in line with events in the neighbouring U.S. in order to avoid a flight of capital from the country.

Peso interest rates have doubled since 1978 and even Alfa, with its triple "A" credit rating, has to pay an effective cost of about 40 per cent for its peso credits.

High interest rates

This high cost, along with Alfa's conviction that it was safe to go on borrowing heavily abroad, caused the company to borrow little in pesos.

And major foreign banks, particularly Bank of America and Chase, vigorously began to court the Mexican private sector when they saw that the public sector, with its excellent credit rating, became less and less profitable.

"We thought the high interest rates would be a temporary phenomenon," says Guzman, "but eventually we had to incorporate them into our strategy."

At the same time as Alfa continued to expand in 1980, the Mexican government, in an attempt to damp down inflation, lowered its trade barriers. But the influx of lower price imports—at dumping prices says Guzman—caused the sale of Alfa's products, particularly petrochemicals, fibres and televisions, to fall dramatically.

And, as it expanded, Alfa took on more and more personnel. But the ballooning number of employees was not compensated by an increase in sales.

Whereas every one Peso spent on administration in 1979 produced 9.35 pesos revenue, in 1980 that same peso earned 7.17 pesos revenue.

By this summer, when Alfa reported a 49.8 per cent drop in net profits for the first six months to 757.8m pesos ($30.3m) it realised that it had to rein in the situation.

Apart from getting rid of 2,000 executives, many of them dealing with planning, Alfa has decided not to take delivery of $28m worth of executive jets which it had ordered. The shedding of the executives cost Alfa $30m in severance payments, but by doing this it estimates that it will save itself about $95m a year in salaries and benefits.

"You won't see our executives calling for the best champagne anymore," says Juan Morales Doria, Alfa's representative in Mexico City.

Since the problem of the lack of consumer credit still persists, Alfa has also decided not to seek any new investments in the areas of real estate and consumer goods. It might sell off these interests if its competitiveness in these sectors weakens.

Alfa has already begun to disinvest itself of several of its operations.

Power Electrica, which manufactures electric motors, and Cimsa, which makes washing machines, dryers and dishwashers, have been sold off. Alfa has also sold its majority stake in a joint venture with Moulinex of France to make electrical household appliances, to two Mexican banks, [illegible] and Banco de Atlantico.

Alfa considered selling off its share in the joint venture with Ford to make aluminium engine heads, and also its majority stake in its Massey Ferguson joint venture, but it has decided to stay with both of them.

However, it has postponed another joint venture with BASF and cancelled a new project with Dupont. Two joint ventures with Northern Telecom of Canada for the production of telephone switchboards and with Siemens, the West German electrical group, for industrial steam turbines have also been called off.

Its investment programme of 16bn pesos ($640m) in 1982 will be 60 per cent less than originally projected because of its changed circumstances.

Most of the new investment will go into completing the expansion of its Hylsa steel plant to lift output to 1.6m tonnes and to finish expansion at its cellulose and paper plant, Celulosa [illegible], and at its petrochemical plant, Petrocel.

The government package from Banobras will enable Alfa to set up a financing company, particularly to purchase its real estate. Alfa's capital has also been increased by 5bn pesos since Banobras has purchased that amount of non-convertible preferential shares which Alfa can repurchase after seven years.

The Mexican Government has a great interest in Alfa not going under since the company has played a key role in the country's development.

With the changes that are taking place Alfa is confidently predicting that its net profit in 1982 will be back to the 1980 level of $160m. "We are not in crisis," says Morales Doria. "We are just having to tighten our belts."

THE ARTS

St. John's, Smith Square

YMSO

by RICHARD JOSEPH

The Young Musicians' Symphony Orchestra has many enterprising revivals to its credit. On Saturday night at St John's it offered Peter Maxwell Davies's *First Fantasia on an In Nomine of John Taverner*, a single movement of compact proportions which was first played at the Proms in 1962.

The shape of the work is basically that of a sonata movement, with a prelude and postlude relating directly to Taverner's original composition. The strings and brass are effectively contrasted, each with substantial passages on their own; some of the woodwind writing softens the acerbity of Maxwell Davies's idiom, suggesting a post-echo of the English Pastoral tradition. It's a modest and grateful piece, and it received a good performance. The YMSO brass were in fine shape and the woodwinds' less imposing contributions were well made. Violins and violas started nervously and would have benefited from more sectional rehearsal.

Baritone David Wilson-Johnson sang Mahler's most difficult solo cycle, *Kindertotenlieder*. His rich, grainy timbre has the right feeling of gravity and sobriety; his sense of pitch was excellent and diction good. But the four slow-moving songs that make up the bulk of this cycle should have more differentiation of timbre and phrasing. One doesn't want variety for its own sake, but rather a more specific and imaginative response to the implications of the text.

James Blair, the YMSO's enthusiastic and committed conductor, could have encouraged his soloist with a more finely drawn accompaniment. Though the orchestra's contribution was well played and nicely timed, Blair's enthusiasm occasionally allowed the violin or high oboe lines to obscure Wilson-Johnson's words. His response to the incidental details of the score was excellent, but a sense of continuity and growth from phrase to phrase was missing.

The conductor's fine qualities were better displayed in a rousing performance of the Mussorgsky-Ravel *Pictures from an Exhibition* which concluded the concert.

Covent Garden

Dances of Albion

by CLEMENT CRISP

The first new programme of the Royal Ballet season, seen on Friday night, seems no more than an arbitrary cobbling together of four disparate works. Each piece has a case to state, but in such odd juxtaposition, merits are obscured, and the haphazard nature of the bill denied any idea of purpose or artistic development. As programme-building, as a commentary upon the Royal Ballet's identity, the evening was markedly curious if it represented considered thought rather than titles picked at random from a list. There were three American works on view: Balanchine's *Serenade*, Tetley's *Dances of Albion*, Robbins' *The Concert*, with Helpmann's *Hamlet* as an unlikely intruder.

The most serious matter seems to me a reluctance to show off our national company as a classic ensemble. With the exception of Balanchine's fifty-year-old academic exercise, there was nothing to stretch or stimulate the Royal Ballet as a troupe which draws its sustenance and very nature from the traditions of the classic dance. Nor is there anything in the repertory for these first two months of the season to remind the company artists of this vital "centre" to their dancing.

Serenade was decently done, in the English manner, which opts for a delicacy and a slightly demure air very different from the unclouded directness of New York City Ballet. I thought Monica Mason most truly Balanchinian in her performance, the dance brave and clean-edged; elsewhere there was plenty of feeling, and something of that resigned sweetness one associates with Victorian heroines about to sink into a decline.

Dances of Albion showed off the company, in that its sheer physical bravura was tremendously met. It has at its heart the dark, brooding presence and racing energies of Stephen Jefferies, who gives such emotional focus to his performance that he persuades me that the serpentine convolutions of Tetley's language are actually saying something pertinent about the two Britten scores which are such odd companions. Wayne Eagling, looking very pre-Raphaelite, Lesley Collier and Rosalyn Whitten, repeated their original roles with splendid daring, and Stephen Beagley and Ashley Page were again the two angels who control the second, *Sinfonia da Requiem*, section. From everyone, as from the hurtling group of attendant soloists, lean and beautiful dancing.

After the unspoken dramas of these first two works, the theatrical glare of *Hamlet*—where the emotions race even if the bodies don't—looked too conscious. There is satisfaction to be gained from seeing everyone on stage chewing their respective pieces of scenery, because they all go at it with such a distinguished air—Antoinette Sibley, Anthony Dowell, Monica Mason, Derek Rencher, Leslie Edwards are all involved—but if it is to survive, *Hamlet* must have a better niche in the programme.

Finally *The Concert*, with Laura Conner all zany wit as the girl with the blue busby and the extra hand, and the various items of choreographic mayhem perfectly under control. The Royal Ballet's artists, to their vast credit, keep the jokes fresh, and the tiny insect battle between Michael Coleman, Graham Fletcher and Paul Benson in the final number is not to be missed.

But it was an unsatisfying evening: like a good dinner, a ballet programme needs balance, contrast, as well as the superb ingredients provided by the artistry of the dancers.

A mass of pattern and texture inside Gledhow Hall

Architecture

Inside the home

by COLIN AMERY

The study of the interior is one of the most fascinating and informative branches of social and architectural history. That brilliant and adventurous scholar Mario Praz turned his eyes into the rooms of Europe when he wrote about the history of interior decoration. It was Praz who used paintings and watercolours as his source material for the history of the insides of houses and palaces.

He also looked at portraits to discover secrets about the background to the sitters. He would have known where the carpet came from that covers the table that stands behind the "Ambassadors" in Holbein's portrait in the National Gallery. Probably he would know all about the red hangings and the brass chandelier in the Arnolfini marriage by Van Eyck.

I have never understood why architects are so often rather suspicious about the world of interior decoration — they seem to despise it a little, often complaining that someone is "only a decorator." If they were a little wiser architects could see the history of interior decoration as a source of ideas both for the planning of houses and the way rooms are used.

How refreshing, for example, was the exhibition *Vienna in the Age of Schubert* that back in 1979 displayed the Biedermeier interior at the Victoria and Albert Museum. Those small paintings of the interiors by Hoechle, Grosser and Malack told more about life in Vienna between 1815 and 1848 than any history book.

In England we are lucky to have the V and A where curators like Peter Thornton and Clive Wainwright are good at seeing the social and artistic point of a piece of furniture or a fragment of a wallpaper. Peter Thornton has written well about the history of 17th century interior decoration in England and Holland. John Cornforth, too, has opened our eyes to the 18th century interior and more recently he has moved into the first half of the 19th century with his *Quest for Comfort*, a book of contemporary illustrations.

This month a new book joins this group of authorities. It is Susan Lasdun's *Victorians at Home* (published, with an introduction by Mark Girouard, by Weidenfeld and Nicolson at £9.95. It must be said at once that it is one of the most agreeable books I have seen for a long time. It is ambitious because it tries to look at the settings lived in by families of all social classes.

Susan Lasdun uses contemporary drawings and photographs of the homes of Queen Victoria, The Prince of Wales, bankers, artists, a schoolmaster, some clergy and several prosperous manufacturers among others. The range is very wide and there is a small section on "modest homes" which is a revealing view of the living conditions of the general mass of the population who were supporting the more prosperous classes.

Although there is no doubt about the book being a piece of social history, I think its greatest virtue is that every single illustration has been chosen with an artist's eye. You look at the Victorian interior through the eyes of the contemporary artist or photographer as well as through the discriminating eye of the author.

The book is divided into families and the first family is that of John Harden living in the Lake District in the 1820s. This is Jane Austen's world. High, light, spare rooms with just enough light furniture so that the family can arrange itself in groups. It looks as though life in their house was delightfully informal, the generations mixing with each other and reading and music and talk all proceeding together.

Queen Victoria's rooms at Osborne have an emptiness that comes as a surprise and the tartan rooms at Balmoral are nothing like as disagreeable as might be expected. The housemaids at Windsor were kept busy: Susan Lasdun has discovered that no less than 1,200 dusters were ordered every year. The houses of the Melbourne - Cowper - Palmerston circle are all illustrated by photographs. Each house—Broadlands, Brocket and Panshanger—had its own atmosphere but each one suffered a little at the hands of the Victorians.

Queen Victoria apparently thought that Brocket—a superb house of the 1760s—was "unremarkable" and that it needed "furnishings and being lived in." I would have liked to know more about the attitude of the owners of the homes in this book to the generations that preceded them.

The house of one George Scharf, who was the first director of the National Portrait Gallery, was in Great George Street, London. Scharf went to the public baths for much of his life, only acquiring a hip bath from his servant quite late in his bachelor life.

Views of the cluttered interiors of Marlborough House when it was occupied by the Prince of Wales and Princess Alexandra manage to make this quite sizeable house appear too small for its inhabitants.

Susan Lasdun's book tells as much about how the Victorians used their houses than many an architectural history. It is probably greedy to ask for more—but sometimes I found myself wanting to know what the outside of the buildings looked like or a little about the Victorians at home in their gardens. But that is probably another book—this one cannot be too highly recommended.

New Hopkins work for women's choirs

A major new work, especially commissioned from Antony Hopkins, by the National Federation of Women's Institutes for WI Choirs, will be presented at the Colston Hall, Bristol on November 7; the Grand Hall, Preston on November 14 and the Assembly Hall, Tunbridge Wells on February 18.

Sponsored by Sainsbury's the three concerts will involve 900 women's voices from all over England and Wales singing the 64-minute musical story of a woman's life, *Early One Morning* conducted by the composer.

At each centre, the choir will work with local orchestras in programmes containing Vaughan Williams' *Folk Songs of the Four Seasons*, songs written for the Associated Country Women of the World, including the international prize-winner; and orchestral interludes. Soprano Judith Rees will be the soloist at all three concerts and Janet Canetty-Clarke the accompanist.

Olivier

The Hypochondriac

by B. A. YOUNG

It was clear as soon as the lights went up on John Bury's beautiful set of three little cottages with balconies and tiled roofs why a play normally despatched in under a couple of hours had been scheduled to last 2¾ hours. It was to be done with all the lavishness of the 17th century, with ballets, elaborate music and dramatic interludes; and it begins at once with a dance for the carnival people, as simple in style as such people might well have been, pretty to see, but long.

Then the three cottages spin on their axis and form the walls of Argan's room, with Argan sitting in his chair directing the medical attention that occupies his life. Daniel Massey, his head draped in a turban, his chin in a straggly grey beard, the rest of him in a voluminous green dressing-gown, gives Argan all the energy he can supply, demanding his comforts at the top of his voice, no doubt to keep him strong enough to beat his daughter Angélique (Emily Morgan) if necessary. It is indeed necessary, for she intends to marry Cleante (Clive Arrindell), whereas Argan *intends her to marry Thomas* Diafoirus, destined for the medical profession, and is plotting to leave his wealth in that direction instead of to his children, as the law demands. I was faintly on Argan's side, for this Cleante is definitely a hobbledehoy.

As the evening wore on, I grew disturbed by the vulgarity that raised its head so often in Michael Bogdanov's production. The translation by Alan Drury won't do for Molière; he gives us false rhymes in the songs (intentionally, for fun), jokes like "witch-doctor" for "which doctor" and "from the heart of my bottom," plain grammatical errors like "to you and I." The style varies from 19th-century romantic to "If you play ball *with me, I'll see you all right.*" The ceremony in which Argan is made a doctor is couched in Latin jokes of low quality, though the pastiche music by Dominic Muldowney is pretty. Most unforgivable of all is Mr Drury's, or Mr Bogdanov's, new conclusion, in which Argan, exhausted by so much dancing after he has cured himself of hypochondria, dies on the stage as Molière did, and is greeted by a conventional skull-faced figure of death. Near the end, a row of mock-doctors spray the front rows of the stalls with enemas, a joke that was applauded more from the back rows of the stalls.

Visually there is quite a lot to enjoy, but the acting on the whole is not the National's highest grade. Mr Massey never tried to look ill at all. Miss Morgan suggested a housemaid rather than the daughter of a rich man, and for some reason she was asked to change into another costume and make a short appearance as his sister Louison. With the arrival of Michael Bryant as the commonsense Béralde, everything seemed to take a turn for the better.

Leonard Burt

Daniel Massey and Polly James

Festival Hall

London Choral Society

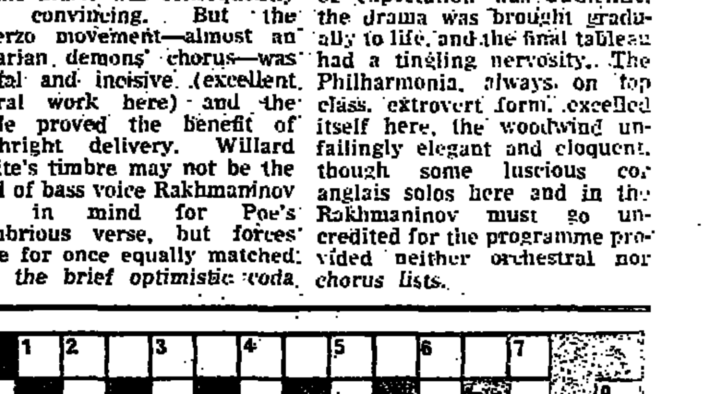
by ANDREW CLEMENTS

With Simon Rattle as its principal conductor the London Choral Society has been encouraged towards music that usually remains the territory of small professional choruses. So for half of its Festival Hall concert on Saturday it was happy to take second place to the Philharmonia Orchestra in the complete score of *Daphnis and Chloe* with the wordless chorus of Ravel's original.

If the orchestra was given ample opportunity to show itself off, the programme suited Mr Rattle's gifts well also. Rakhmaninov's *The Bells*, slowly becoming as popular with conductors as it was with its composer, began the evening. The combination of vivid orchestration—displaying a virtuoso touch that Rakhmaninov was to *find again only in his late* Symphonic Dances—with an accumulating intensity and *infinite* rythmic flexibility, required careful co-ordination of orchestra and singers. There were occasions in the first two movements, with Philip Langridge and Elise Ross as the *soloists*, when balance was not quite perfect, when details went unremarked and then the shape of the music was consequently less convincing. But the scherzo movement—almost an Elgarian demons' chorus—was brutal and incisive (excellent choral work here) and the finale proved the benefit of forthright delivery. Willard White's timbre may not be the kind of bass voice Rakhmaninov had in mind for Poe's lugubrious verse, but forces were for once equally matched: *and the brief optimistic coda* seemed less necessary than usual.

It is difficult to recall performances of the complete Daphnis and Chloe with fewer unnecessary moments than this one. The first half of the ballet always takes some time to work up a head of steam, but Rattle balanced the layers of the opening so carefully that the sense of expectation was authentic, the drama was brought gradually to life, and the final tableau had a tingling nervosity. The Philharmonia, always on top class, extrovert form, excelled itself here, the woodwind unfailingly elegant and eloquent, though some luscious cor anglais solos here and in the Rakhmaninov must go uncredited for the programme provided neither orchestral nor chorus lists.

F.T. CROSSWORD PUZZLE No. 4,707



ACROSS

1 Recover and persuade girl to amalgamate (4, 8)
10 One politician left worker to insert (7)
11 Moist current in food (7)
12 Bird sound affected Times leader (5)
13 She's unfairly seen to enter but goes to pieces (8)
15 Revolting time of year with sea flooding in (6, 4)
16 One artist to question in Middle East (4)
18 Joan's light hard chief (4)
20 Get elected in SW3 or in Sussex (10)
22 Sent to be cut short pardonably (8)
24 Glassy tribute to a good man (5)
26 Venomous creature with no end of a heavenly sign (7)
27 Infant red told another version (7)
28 First father leading chartist (3, 2, 3, 4)

DOWN

2 Burden of work on papers (7)
3 Wanting a lot from players' work (8)
4 Re-organised as to fodder (4)
5 Result of having to close professional channel (3, 7)
6 Cough requiring attention by a northern tough guy (2-3)
7 Kick up a shindy when one is put in duty list (7)
8 "We are not amused" by brave decoration (8, 5)
9 Share 15's backs (5-8)
14 Forcibly removes widespread industrial action before start of race (7, 3)
17 Stopped talking when driving safely (6, 2)
19 Conservative doctor turns up with job making stuff for the garden (7)
21 Will operation be needed on boat? (7)
23 Restore level to small dog (3, 2)
25 Fascinating woman beheaded in irritation (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

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Realism at Cancun

THE OUTCOME of the Cancun Summit was so inconclusive that even the participants seem unsure wherher to describe it as a success or failure. No firm agreement was reached on any of the four main topics for discussion — food, trade, energy and finance — and it is not even clear what the next steps in the so-called North South dialogue are supposed to be.

There are suggestions that the "global negotiations" to which the developing countries attach so much importance will be resumed under the auspices of the United Nations within the next few months, but both the form and purpose of any such negotiations still seem to be very much up in the air.

Nevertheless, it is possible to draw some comfort from what did not happen at Cancun. There was not the rhetorical exchange of mutually contradictory positions which might have ben expected. The attitude of the U.S. was not as rigid as some of President Reagan's economic advisors migh have hoped.

Mutual understanding on development issues was, to some degree, advanced.

Barriers

Most important of all, perhaps, were the signs that the developing countries may be moving away from the grandiose ambitions of the New International Economic Order, involving massive transfers of resources from North to South, towards nuts-and-bolts problems on which genuine progress can be made.

It has never been entirely clear what the developing countries — or for that matter the authors of the Brandt Report — have meant by their calls for drastic changes in the world economic system.

What is mainly needed is for developed and developing countries to pursue policies which make the existing system work better and, in doing so, to contribute towards the elimination of poverty and underdevelopment in the third world.

On trade, for example, there is a clear community of interest between North and South in a lowering of barriers which will permit each country to develop its industries in line with its comparative advantage.

Lectures from President Reagan and others about the virtues of free markets are hard to reconcile with increasingly restrictive — and apparently permanent—import controls like the Multi Fibre Arrangement.

This is not just a matter of the governments of industrial countries taking a firmer line with their protectionist lobbies. It is also important that the more advanced developing countries provide reciprocal access to their own markets.

Influence

Aid policy—particularly the balance between bilateral and multilateral aid—is too often determined in the industrial countries by a narrow conception of short term national interest.

The use of aid funds to secure overseas contracts inevitably diverts resources from the poorest countries which are not in the market for large projects and from multilateral institutions which are generally better equipped to assess a developing country's aid requirement.

It is in the interests of both North and South that confidence in the multilateral agencies should be maintained and that adequate funds should be allocated to them.

A community of interest on these matters need not necessarily be frustrated by conflicting political ideology. President Reagan is unlikely to persuade, say, President Nyerere of Tanzania to reorganise his economy on capitalist lines.

But it may be possible for agencies like the World Bank and the International Monetary Fund to use their influence to chip away at some of the bureaucratic rigidities and economic distortions which prevent markets from working and hamper development.

If the Cancun meeting has influenced attitudes so that decisions taken at a lower level reflect a clearer understanding of the common interests between North and South, something useful will have been achieved.

But in the end the biggest contribution the industrial countries can make to the prosperity of the third world is to put their own economies in order.

No substitute for profits

WHEN IN doubt, call for cheap industrial finance. The charge that Britain's industrial failings can be largely laid at the door of its financial institutions is an old and hoary one. Far from being settled by the exhaustive and exhausting Wilson committee investigation, it is now being raised again by the Grylls committee of Conservative backbenchers.

The argument is simple enough. There are countries, notably Japan and West Germany, which are clearly more successful in their industrial performance than the UK. In such countries, bank lending to industry is much greater than in the UK. There is "much evidence" that the impressive industrial growth rates are based primarily on the availability of cheap, long-term credit. Therefore an avalanche of cheap credit in the UK will achieve the same industrial result as in Japan or Germany. Or at least, as the Grylls committee puts it a little more modestly, "British industry should be given the opportunity to respond to similar financial resources."

Personal sector

The logical problem here, of course, is that even if it were possible to transplant the Japanese financial system, there can be no assurance that it would operate in the same way in a UK environment. Maybe the Japanese banks lend more because Japanese companies are, by and large, good customers.

There are four specific proposals by the Grylls committee. First, the cost of borrowing by industry would be effectively halved by allowing interest to be paid net of corporation tax. Second, institutions should be enabled to raise money for industrial investment from the public, again with tax advantages. Third, the Small Firms Guarantee Scheme should be extended to substantially larger loans. And finally, a ceiling should be applied to lending by the banks to the personal sector.

Whatever the merits or demerits of these individual proposals—and obviously the clearing banks will fiercely resist the last one—the whole argument is rendered irrelevant by the committee's failure to show that raising the level of industrial investment would itself improve industrial performance.

If there really were a shortage of finance for profitable projects, the tell-tale sign would be a rise in achieved returns on capital as competition lessened. In fact, the observed real return on capital in industry is sinking lower and lower. Moreover much of the investment that is being made is slanted in a labour-saving direction, casting doubts on the committee's assertion that subsidising investment would necessarily lead to a reduction in unemployment.

The attraction of financial manipulation as an answer to Britain's economic woes is that it appears to offer quick and relatively simple solutions—in much the same way as Chancellors of the Exchequer used to fine-tune the economy by changing the price of a packet of cigarettes by a penny or two.

Even the Grylls reports, however, recognises that the problems lie very deep. Among the factors it cites for the weakness of industry in the UK are the hostility of the economic climate to innovation, and the pressures on companies to achieve short-term results at the expense of the long term.

No doubt many more explanations could be cited — like the confrontational approach by unions and management, the anti-industrial bias of the educational system, or the frustration of mobility by the nature of the housing market.

It is legitimate enough to point to undoubted distortions or inadequacies in the financial system. The tax relief offered to home buyers has deliberately diverted finance to the house market and has raised the cost of funds to industry and commerce. The banks have been slow to respond to the changing needs of industry.

Real question

There is certainly a case, too, for looking again at the basis of investment incentives to industry when few manufacturing companies are in a position to gain any benefit from tax relief. Yet it is worth recalling that one reason why tax incentives were brought back instead of straight cash grants was that the benefit would be channelled towards profitable, rather than unprofitable, companies. The real question is why the profitability of industry has become so poor. When that fundamental problem has been solved much else—including finance—will follow.

RUSSIA AND SOUTH AFRICA

Gold: the game hots up

By David Marsh in London and Bernard Simon in Johannesburg

SOUTH AFRICA and the Soviet Union, the two gold powers at opposite end of the international political spectrum, are sharpening their entrepreneurial skills in the world-wide bullion trading game.

They need all the help they can get. Both countries — which between them account for about three-quarters of annual world gold production — are suffering this year from the impact of a gold price still more than $400 below the short-lived peak in January 1980 of $850 per ounce.

With both economies strained by soaring defence spending and a sharp deterioration in their external finances, Pretoria and Moscow this year are having to sell more gold simply to make ends meet. But they are also refining their sales techniques in order to extract maximum profits from a market which brings rewards only to the sure-footed.

The Big Two have diversified their marketing efforts to include all the world's main bullion centres rather than just the principal two, London and Zurich.

South Africa and the Soviet Union are also trying out a new approach with their commercial banking friends in the West. At the same time as they are becoming more reliant on banks abroad for credits and goodwill, both countries are increasingly trying to beat the professional banks and brokers on the international sales circuit at their own game of gambling on the highs and lows of the gold price. They are also experimenting with use of the forward markets.

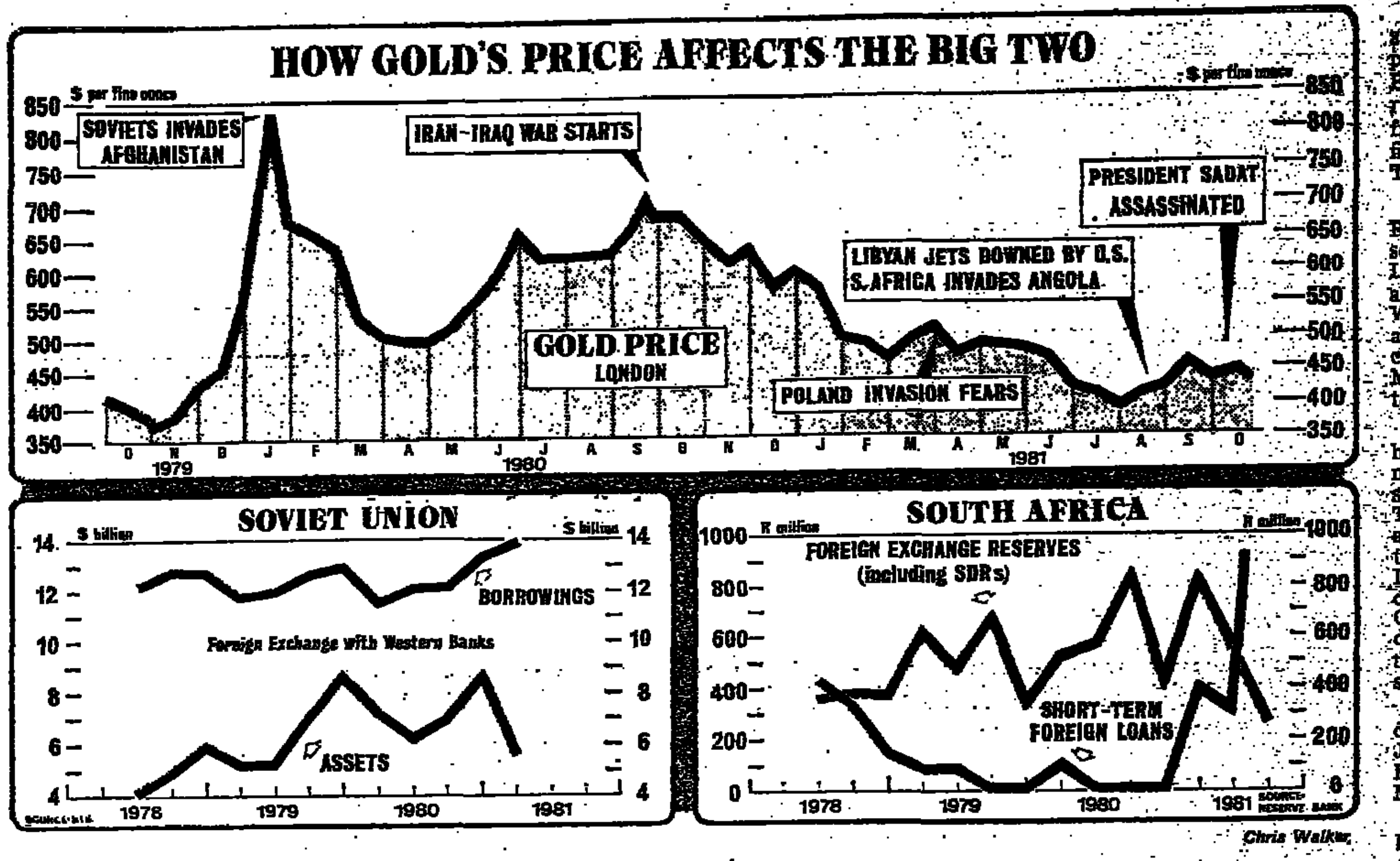
It is a strategy strewn with pitfalls. Last year, when the gold price averaged over $600 per ounce, the gold producers were both running current account surpluses and could afford to hold back supplies from the market in the hope of keeping up prices.

Thanks largely to high interest rates in the U.S., which have depressed the gold price ever since President Reagan's election victory last November, that plan has come unstuck. This year, in order to finance current accounts that have now plunged into the red, the South Africans and Russians need to unload more gold on to a declining market—threatening to set up a vicious circle under which selling pressure forces the price lower still.

The two countries with the largest common interest in the gold price are more than just political adversaries. The two clashed on the battlefields of southern Angola at the end of August, when the South African army killed a number of Soviet officers during its incursion into the country. Ironically enough, the event boosted both gold producers' fortunes. In line with the bullion market's traditional role as a barometer of political tensions, the gold price rose as a result of the fighting.

Pretoria and Moscow adopt different tactics to sell their gold. South Africa is far more dependent on bullion than the Soviet Union—last year gold made up more than half of its exports, against less than 10 per cent in the USSR—and is keen on maintaining a reasonably steady flow of supplies. The Russians, on the other hand, sell largely in sporadic bursts, keep sales details a closely guarded secret, and also try to muddy the picture (and make extra profits) by buying gold as well as unloading.

The Kremlin's yellow metal strategists have even complained at times that South Africa's steady sales unduly depress the price. But any doubts about the similarity of the two countries' aims are dispelled by the extraordinary resemblance of their advertising blandishments. "A modest amount of gold held in reserve would put you in line with the most informed financiers in the world," according to a South African Press campaign last year. "You can build a personal gold reserve coin by little coin," intones a promotion brochure for the Soviet gold Chervonets coin. "It could be the best investment you ever made."



Chris Walker

Informal contacts in London next month

The two sides have always denied any form of collaboration in gold marketing, even though informal contacts in this and other fields of joint interest undeniably exist. Next month, for instance, South African and Russian representatives will be sitting down in London to discuss joint promotion of karakul (persian lamb) pelts, an area where the two countries (along with Namibia) also dominate world production.

The vicissitudes of world politics have always played a key role in the timing of Soviet sales. In November 1962, at the height of the Cuban missile crisis, the Russians took advantage of the usual "war scare" rush into gold to unload extra volumes at the then overheated price of $35.18 per ounce.

The sharp-eyed gold managers at Soviet bullion trading bank, the Zurich-based Wozchod Handelsbank, made sales last year when prices rose during the Russian invasion of Afghanistan and the outbreak of the Iran-Iraq war. They followed similar tactics this year during the Warsaw Pact manoeuvres in Poland in the spring and when the gold price spurted momentarily following the shooting down of Libyan jets by the U.S. air force in August and the assassination of President Sadat earlier this month.

Moscow's involvement in some of these events may give the Russians a unique marketing tool. One Zurich bullion dealer says: "They know better what may happen in the Middle East than I do. They're dealers—speculators. If they expect the gold price to improve, they may buy rather than sell."

With finances strained by high grain imports after the disastrous 1981 harvest, soft prices for oil exports, aid to Poland and the cost of occupying Afghanistan, the Kremlin this summer has had no choice but to sell more gold.

Moscow's hard currency reserves with Western banks already declined to the lowest for two years at the end of the first quarter, according to figures from the Bank for International Settlements. Judging by preliminary data from the Bank of England, its position may have declined further in the second quarter.

According to one experienced London dealer, the normally cool-headed Russians "lost their nerve" during the past few months by unloading on an already depressed market.

Precise estimates of Soviet sales are impossible because Wozchod is continually buying and selling in different centres. However, net sales so far this year are generally believed to have been between 100 and 150 tonnes (although some dealers put the figure as low as 60 and others at more than 150). More than half of the sales are believed to have taken place during the past two months. The amount for the year could approach 200 tonnes, more than double the 1980 total, although still half the record sales figure in 1978 of 400-plus tonnes.

South Africa too is in difficulties. The current account—which was in healthy surplus last year—was running at deficit of R3bn at an annual rate in the first half of 1981, far higher than the previous record deficit of R2.4bn in early 1976.

Foreign exchange reserves are now down to the lowest for seven years, and the Reserve Bank's short term borrowings have shot up.

The next line of defence is to draw on "swap" lines with foreign commercial banks, under which South Africa in effect pledges part of its gold reserves in return for hard currency loans. It carried out such operations with Swiss banks during the last big drop in the gold price in 1976 and 1977.

Dr Chris Stals, the Reserve Bank's senior deputy governor in charge of gold marketing strategy, has admitted that the current swaps may have to be negotiated soon with international banks.

Bullion bankers believe that drawings are almost certain to be made before the end of the year, possibly for amounts up to as much as $1bn.

The South Africans like to stress that they do not manipulate the gold market. According to Dr Stals, South Africa sees its role as providing the "hard core" of the world's gold supplies, while the Russians "play it at the top."

None the less, around 10 per cent of current South African production was withheld from the market last year. This year all production (expected to be slightly lower than last year's 675 tonnes) will be sold. But the Reserve Bank is becoming more adept at adapting its supplies to the state of the market. It withheld gold for up to a week in July when the price came under pressure.

Keeping in touch round the clock

Bullion dealers believe a large gold swap could help South Africa finance further gold retentions next year as part of a bid to steady the price.

At a time when more gold needs to be sold, both producers are aiming to spread it around as widely as possible.

The bullion dealers at the Wozchod work night shifts to enable them to keep in touch with the New York market right up to the close. In Pretoria, Mr Hennie Bester, the Reserve Bank general manager in charge of day-to-day gold operations, has gone one step further. He has a Reuters video screen installed in his home to enable him to keep a watch on price movements in New York and the Far East.

The Russians still use Zurich as the main physical delivery point for gold sent to the West. But some direct shipments have recently been made to places as far afield as London (for the first time for several years), Tokyo and Kuwait.

Dealers report that the Russians are relying more on selling through the twice-daily London fixing. By resorting to a set, published price, the Wozchod's bullion dealers apparently feel safer from criticism from their bosses in Moscow that they are selling at too low a level.

The Reserve Bank in Pretoria has also expanded markedly the number and geographical spread of its direct customers. These may now total as many as 18 banks and brokers around the world. From selling only to London and Zurich, it started diverting sizeable quantities to German banks and U.S. gold dealers in 1976. It has also dealt through Paris and occasionally sells to Hong Kong.

A recent addition to its U.S. clientele—which also includes J. Aron, Republic National Bank and Philipp Bros — is Morgan Guaranty.

The Swiss have been the main losers from direct sales to the Americans, German and London dealers. Dealings with the Zurich gold pool—made through Union Bank of Switzerland—have recently accounted for just under half the total, although Swiss deliveries at times have sunk as low as 20 per cent of monthly sales.

The Swiss supplement their supplies with imports from the UK, which remains the main centre for South Africa's physical deliveries. Stocks are held at the Bank of England, and sales to the London gold dealers are channelled through Rothschilds.

The Russians and South Africans are also testing the use of forward markets to lessen the risks caused by volatile prices. The South African mining companies are adopting a cautious approach. Hartebeestfontein, part of the Anglovaal group, and Marievale, a mine in the Gencor group, have both made use of forward contracts or the futures markets to sell small amounts this year. The Soviet Union is also believed to use the New York futures markets from time to time.

The mining houses, however, by no means agree on the benefits of "hedging" through forward sales, particularly when the bullion price is relatively low. Mr "Danny" Watt, chairman of Rand Mines' gold division, asks: "Do you ever hedge when you believe that the price is in a trough and may be rising?"

The Russians, like all gold producers, are certainly also perpetual optimists that the price is going up. The bullion overlords who control marketing from Moscow are reliably reported to be avid readers of "gold bug" literature of the sort predicting price rises to the dreamy heights of $1,500 and beyond.

Men & Matters

Not so sweet

A discordant note has sounded amid the gentle peal of cowbells on the banks of Lake Geneva, where German-born Helmut O. Maucher is in line to take over next month as managing director of the chocolate and foodstuffs multinational Nestlé.

A group of Swiss shareholders is protesting loudly about the appointment of "a foreigner" to succeed the Swiss Arthur Fuerer, who becomes chairman.

Maucher, former chairman of Nestlé's German subsidiary, the group proclaims in an open letter, is not the right choice to run a company "of such importance to Switzerland and the canton Vaud."

Nestlé is Switzerland's biggest single business and Vaud's largest industrial taxpayer. But it has long since outgrown its headquarters country which now accounts for little more than 3 per cent of its $13bn-plus turnover.

The Swiss patriots have, I should say, left it rather late to have much hope that their protests about foreign infiltration will be heeded.

The original Nestlé was a Herr Henri Nestlé who came to Vevey from Frankfurt in the 1840s and started to produce baby-food there. The modern Nestlé group was formed when his company joined up with Anglo-Swiss Condensed Milk, set up in 1866 by two Americans, Charles and George Page.

More recently, the non-Swiss accent has been even more marked. The man Fuerer succeeds as chairman next month is Pierre Liotard-Vogt of France.

Reflex action

Sir George Young, junior minister at the Department of the Environment, faces a tricky point of protocol on Wednesday. He will be presenting the Brick Development Association awards at the Berkeley Hotel in London. Good opportunity for backslapping, words of praise and so on — until it comes to the award for renovating the chimneystacks at Hampton Court. Recipient — on behalf of the Property Services Agency —Environment Minister Sir George Young.

Will he strike the right notes of congratulation and gratitude? Will he make the same speech twice? Well, if anybody can pull it off gracefully, Young should be the man. For it is only three-and-a-half weeks since he was in precisely the same position as disburser of the Stone Federation awards, and simultaneously recipient of an award for Caxton House in Tothill Street, home of the Department of Employment.

Well suited

When I remarked last week that U.S. Secretary of State Alexander Haig had been voted one of America's ten best-dressed men, while President Ronald Reagan "simply doesn't know how to dress," according to the Custom Tailors Guild of America, I overlooked what may be considered a material fact.

Not, of course, that I would wish to argue about whose suits are the most suave. But while British tailors can take pride in the thought that Haig buys his suits from Leeds-based high street firm John Collier, there is another side to the story. Reagan himself is also a fan of British clothing, and the presidential wardrobe sports over a dozen suits made by the Yorkshire textile firm Illingworth Morris, better known now for boardroom battles and its uninhibited shareholder, Pamela Mason.

The strength of the Illingworth Morris connection with the White House is that Pamela Mason's young son Morgan is not only a director of the textile firm; but also an adviser to the President. Indeed, his commitment to fund-raising during the Reagan election campaign kept him away from IM Board meetings for two years. But, as his mother then pointed out, in his defence, what better promotion could there be than to dress the President of the United States?

The answer to that question must now, I suppose, depend on what weight you attach the comments made by the Custom Tailors Guild. But while the quality of exposure may be prized, the quantity of it is beyond question. For it was Illingworth Morris which made what must surely be the year's most widely-publicised suit—that worn by Reagan when he was shot in Washington last March.

Take your pick

David Scholey, joint chairman of Warburgs and tipped as a possible future governor of the Bank of England, used to play guitar for Dusty Springfield? It's true! I read it in Euromoney!

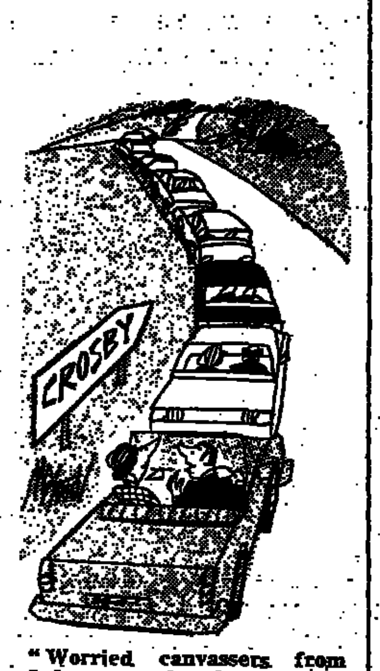
Small peace

Military historians may wish to know that one of Europe's longest-running wars is due to end next month. The conflict, which has gone on for 172 years with ne'er a drop of blood shed, is between Denmark and the tiny village of Huescar in Andalucia, Spain. Huescar—though not the rest of Spain—declared war against Denmark in 1809, in a fit of pique obscurely related to the Napoleonic Wars.

Now that the Spaniards have decided to seek peace with honour, the Danish ambassador will drop by to sign a treaty with Huescar's mayor. But how has the "fighting" managed to last so long? Largely because Denmark was ignorant of the whole business, says Copenhagen.

Cutting it fine

And now, positively my last word on the alloring trade. The story is wholly apocryphal, with no characters intended to bear any resemblance to anybody living or dead.



"Worried canvassers from Labour and the Tories, probably!"

That eminent American Henry Kissinger was most distressed when he took a length of fine cloth into his local tailor, and ordered a suit to be run up from it. No chance, said the tailor, not enough cloth to do the job. The vexed Kissinger convinced that it should be possible to have the suit made up, took the cloth with him on his travels. London, Edinburgh, Singapore, Jeddah — everywhere, the same answer. Not enough cloth.

Finally, many months later, the statesman arrived in Tel Aviv, and dropped by a tailor's shop. No problem, said the cutter, come back in two days. This Kissinger duly did, and was pleasantly surprised to discover that the cloth had yielded not only a suit, but a spare pair of trousers too.

"How on earth did you manage that?" he asked.

"Well, Dr Kissinger," replied the tailor, "you're not such a big man here."

Observer

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FINANCIAL TIMES SURVEY
Monday October 26 1981

JAPAN BANKING, FINANCE AND INVESTMENT

Japan's dominant position in world trade and the strength of its exports have created tensions among its Western trading partners. Some of these have spread to financial relationships, creating a situation where the Japanese authorities are increasingly obliged to reflect on suitable means of alleviating them.

ECONOMIC INDICATORS
(per cent change on year or period unless otherwise indicated)

	1978*	1979	1980	1981 1st qtr	1981 2nd qtr
GNP real growth rate	5.2	5.5	3.8	1.1	1.2
Industrial production index	7.0	9.3	4.6	1.7	−0.3
Mfg. operating ratio (%)	82.1	88.0	85.8	84.2	82.7
Wages index	5.9	6.5	6.6	5.6	6.4
Real consumption	1.5	2.3	−1.2	−1.1	−0.1
Unemployment rate (%) (seasonally adjusted)	2.2	2.0	2.1	2.15	2.33
Consumer price index	3.4	4.8	7.8	6.6	4.9
Wholesale price index	−2.3	12.9	13.3	4.1	0.4
Money supply	12.1	11.4	8.4	7.6	7.9

* Fiscal years April/March.

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System under world pressure

BY RICHARD HANSON

THE YEAR 1981 probably will be looked back on as one of the most successful years ever for Japan's economy, and one of the most disastrous for its relations with other developed nations.

Low inflation rates, an embarrassingly large current account surplus, and a fairly rapid rate of GNP growth have all combined to make Japan's record appear enviably good compared with that of any of its partners or competitors in the West. Yet at the same time, Japan seems to have failed more conspiciously than ever during the past year to be a "good neighbour" in the strictly limited economic sense which interests Western Europe.

Its massive and increasing trade surplus with the EEC Ten—by now confidently expected to exceed $13bn—has come nearer to provoking actual trade hostilities (in the shape of unilateral European barriers against Japanese imports even than the surpluses which followed the first (1973) oil crisis).

The irony of the Japan-EEC row over trade imbalances—and of a very similar row that seems to be blowing up over what could be the equally disturbing Japanese trade surplus with the U.S.—is that one of the major causes of Japan's outrageously successful trade performance is a problem which bothers Europeans almost as much as Japanese and which both sides have complained about repeatedly to the U.S.

Excessively high U.S. interest rates have not only forced European governments and central banks to keep their own interest rates high, so as to prevent destructive outflows of capital and preserve exchange rates. They have also proved to be one of the two most effective obstacles to the implementation of a domestic-demand oriented economic policy that Japan had planned to pursue in 1981.

The weakness of the yen—now floating at about 230 to the dollar but recently at the absurdly low level of 247—is one obvious pointer to the way Japan has been thrown off course by U.S. interest levels. Of still greater significance is the glaring disparity between Japan's original blueprint for the growth of the various components making up its Gross National Product (issued in December 1980) and the pattern which has actually emerged.

Japan originally aimed at 1981 growth and trade targets which, if achieved, would have done little to disturb anyone. Under an initial forecast by the Economic Planning Agency, fiscal year 1981 (the period running to March 31 1982) would have seen a sharp recovery in the domestic component of the GNP (the part consisting of consumer spending, manufacturing investments and so on) while the external sector (exports minus imports) would have taken a back seat.

The heavy reliance on exports that gave Japan a 3.8 per cent growth rate in 1980 would have been reversed to produce a situation in which three-quarters of total growth came from within Japan while the external sector provided the remaining quarter. In addition, Japan expected to run a deficit on current account (consisting of merchandise trade and invisibles) of about $6bn, following the $10.7bn deficit it ran in fiscal 1980.

Blueprint

Early in October the EPA released a revised blueprint which showed just how badly its original plans had come unstuck. It now plans for a much slower rate of growth in domestic demand and for a roughly 50-50 balance between the contribution of the domestic and external sectors while the $6bn deficit of the original plan has been re-estimated (conservatively) into a $7bn surplus.

Given that Japan's economy was dependent on the external sector for no less than three-quarters of the growth achieved during the first three months of the new fiscal year (April to June), even these revisions could turn out to be over-optimistic.

Japan has been unable to take strong steps to stimulate the domestic economy for two reasons. First, the Government suffers from a large budget deficit and is pursuing a policy of reconstructing its finances by holding down spending.

Second, the Ministry of Finance is constrained from using its most effective tool, lower interest rates (the official discount rate is now 6.25 per cent), mostly because of the double-digit gap which has existed with U.S. interest rates throughout the year. Lowering interest rates would probably weaken the yen further, thus making Japanese exports even more competitive, and Japan's trade partners more unhappy.

The lack of strong incentives to domestic demand adds to the trade imbalance problem by keeping demand for imports low. Over the summer, imports on a yearly basis actually fell—perhaps a more important reason for running a large current account surplus than the growth rates in exports.

The influence of U.S. interest rates has also played a role in upsetting the Japanese bond market, where the Government itself needs to raise about Y12,000bn to cover a large deficit in the national budget. The Government in fact was unable over the summer months to make public issues of long-term bonds.

In September, the Finance Ministry finally agreed to raise the coupon rate to make them more appealing to the underwriters. There are fears, however, that this will lead to a general rise in long-term lending rates, which could dampen the already lacklustre corporate capital spending plans.

One other way in which high interest rates have been felt is in the flow of capital in and out of Japan. Investment into Japanese securities, and investment by Japanese into overseas instruments, have been greatly liberalised over the past couple of years. In 1980, there was a remarkable influx of foreign investment which helped offset the large deficit Japan had in the current account as a result of higher oil prices.

So far this year, there has been a slowdown in investment from OPEC and elsewhere. Estimates of OPEC investable funds have themselves been revised sharply downward, but it also appears that Japan is getting a smaller share of the total this year than the 10 per cent it may have drawn last year.

The weakness of the yen may have played a role in discouraging foreign investors. The Japanese stock market, which attracted a record inflow of foreign funds last year, has also turned more erratic in line with uncertainties in the U.S.

In the longer term, the underlying fundamentals of Japan's economy should continue to attract foreign investment. Japan now has the lowest inflation rate of any of those major industrial countries (less than 5 per cent per annum since May).

The authorities, however, have also recognised the long-term need to encourage capital flows. When Japan itself is running a deficit in the current account, a surplus in the capital account can help keep the overall balance closer to equilibrium.

The other side of the coin is that Japan can balance a current account surplus by encouraging an outflow of loans and investment capital.

Slowly, Japan is moving to the point where its own capital markets are open enough to play a greater role in the international financial system.

Equilibrium

A recent report by a group of influential Japanese and U.S. "Wisemen," created to study bilateral economic problems, recommended among other things that too much emphasis should not be placed on bilateral trade balances, as long as the overall balance of payments shows a trend toward long-term equilibrium.

Japan has wholeheartedly accepted this idea that trade should be viewed on a multilateral basis. It has been less convincing to others when the trade imbalances move so far out of line, however, and when Japan's access to overseas markets poses a threat to local industries.

The Wisemen's group suggests that Japan's bilateral merchandise trade surplus with the U.S. (and presumably Europe) is in fact "structural" and cannot be eliminated easily. On the other hand, Japan would do well to concentrate on opening up itself to other important links. The free flow of capital, for example, is at least as important to the efficiency of the international economy as trade. In this regard Japan lags behind.

There is thus strong pressure on the government to adopt coherent plans to further liberalise both the domestic and international markets in Japan. This would include creating an offshore banking centre in Tokyo where the internationalisation of the yen could proceed in its natural habitat.

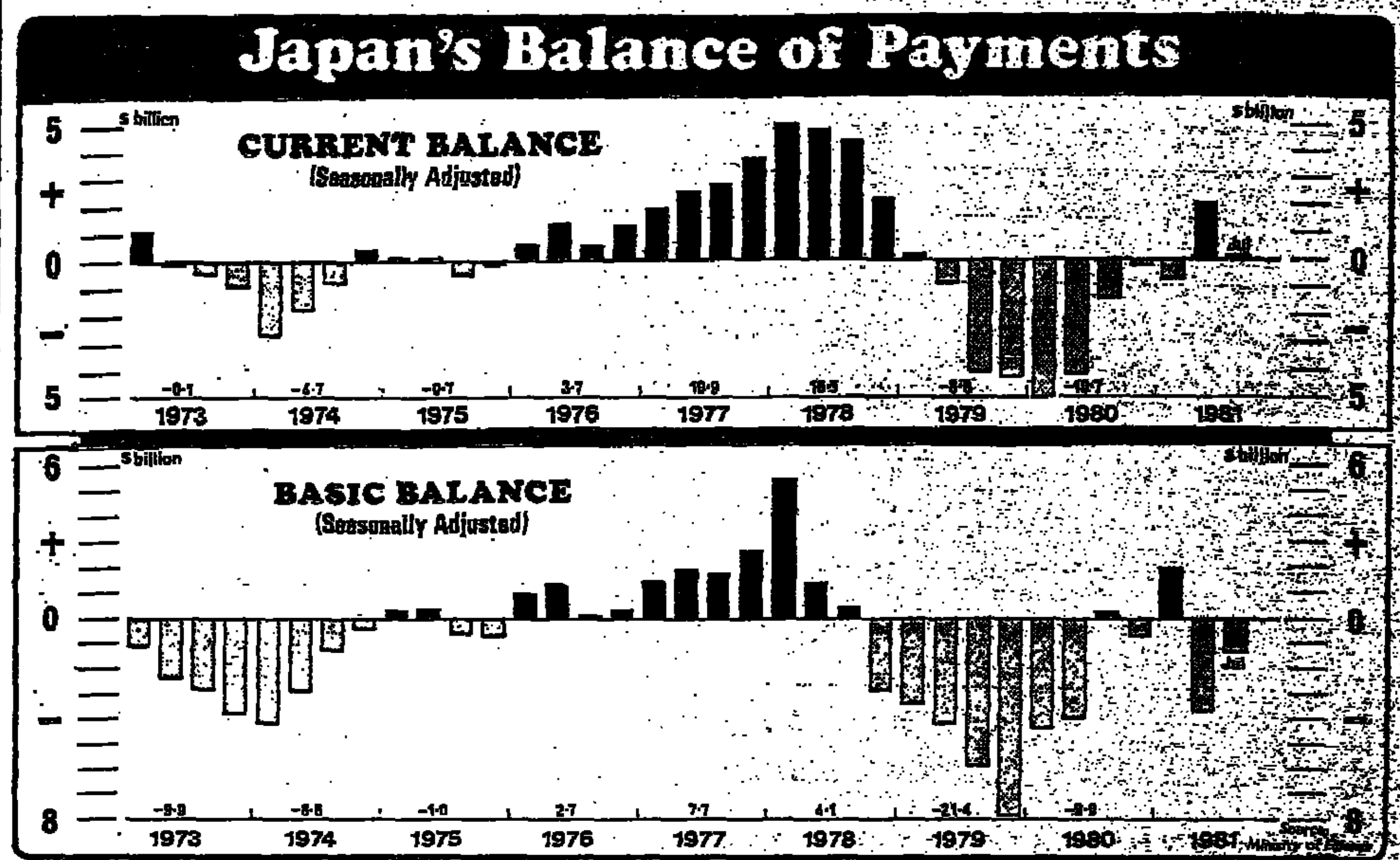
There are numerous domestic barriers standing in the way of dramatic changes in the financial system. For one thing, the Ministry of Finance worries just how much "spillover" into the still rigid domestic market would occur with a free-wheeling international market in the back yard. Japan has already found it impossible to isolate its markets entirely from international movements in interest rates.

It is interesting to note, however, that the strongest barriers to change involve such purely domestic political problems as establishing a degree of control over Japan's huge postal savings. Ministry attempts to set interest rate policy under a system dating back to the 19th century.

But there is no doubt in the minds of some bankers that changes are in the wind, even though big changes may take several years. It will be recalled that Japan finally decided to revise its stifling old foreign exchange control laws into one which, in principle, makes all transactions free, only after former Prime Minister Takeo Fukuda promised to do so to mollify trading partners during an earlier mid-1970s trade crisis. The new law went into effect in December 1980.

In the long run, the problems which have arisen over the past few months should speed the process of change in the financial system. Very little changes in Japan without strong pressure from the outside, comments one former Vice-Minister of Finance. The pressures on Japan are now present in abundance.

JAPANESE BANKING II



Current account swinging sharply into surplus

AIDED by a heavy depreciation of the yen against the U.S. dollar and the glut of world oil, Japan's current account is swinging sharply back into surplus, giving rise to growing concern among Japanese industrialists that a new series of trade frictions with the U.S. and Western Europe may crop up.

On the other hand, the long-term capital account surplus, caused a massive infusion of foreign investment in Japan in 1980, is now showing signs of erosion.

The Japanese Government's Economic Planning Agency is revising its projection of the fiscal 1981 current account balance to a surplus of $7bn from its original estimate of a $6bn deficit. This is based on a revised estimate of $23bn for Japan's trade surplus for fiscal 1981, compared with a previous projection of $8bn.

Some Japanese traders are predicting that Japan will have a current account surplus of more than $10bn on the basis of record trade surpluses with the U.S. and the EEC.

The weakening of the yen since the beginning of 1981—though it caused some difficulties in Japan, including pressure for higher domestic interest rates—had the effect of encouraging Japanese exports at a time when Japan's current account balance was still in deficit. The glut of world oil, coupled with success of oil conservation efforts in Japan, reduced Japan's oil imports—which account for more than 50 per cent of its customs-cleared import bill—by 21.2 per cent in quantity and by 9.8 per cent in value during the first half of 1981 over the corresponding period the year before.

Exports of ships and industrial plant facilities particularly benefited from the lower exchange rate of the yen. Shipments of electronics, including video tape recorders and other high technology items continued to boom, while overseas sales of Japanese cars increased in value thanks to price increases which followed a previous appreciation of the yen. Profits in Japanese export industries also rose, because the exchange rate of the yen fell far below the Y200/Y210 level on which their export contracts were based, increasing the yen value of the same dollar revenue.

Exports to most regions, including the U.S., South-East Asia, the Middle East and Latin America, have been increasing. An exception is Western Europe, where exports may have experienced a slight setback in mid-1981 before picking up again.

According to balance of payments statistics, Japanese exports during the first half of 1981 totalled $75bn, up 26.8 per cent over the corresponding period of the previous year, while imports were $66.2bn, up 7 per cent.

Finance Ministry officials point out that Japan's trade balance, seasonally adjusted, has been steadily improving from a deficit of $876m in the second quarter of 1980 to a surplus of $1.4bn in the third, with the surplus rising thereafter to $2.9bn in the last quarter of 1980, to $3.4bn in the first quarter of 1981 and $5.4bn in the second.

Reflecting the trend of the trade balance, Japan's current account, seasonally adjusted, also improved from a peak deficit of $1.8bn in the third quarter of 1980 to a deficit of $722m in the first quarter of 1981, and then moved into a surplus of $2bn in the second—corresponding to an annual rate of surplus of about $8bn.

On the other hand, Japan's long-term capital account was adversely affected by the high U.S. interest rates and the weakening of the yen against the U.S. dollar. The long-term capital account during the first half of 1981 showed a deficit of $8bn compared with a surplus of $747m in the corresponding period of 1980 and a surplus of $1.6bn in July-December 1980, chiefly because of a sharp increase in the outflow of Japanese capital attracted by high overseas interest rates.

Finance Ministry officials observe that Japan financed a total of $15.8bn in fiscal 1980 including a $7.3bn deficit in the current account and a $8.5bn increase in external reserves. The $15.8bn was covered with $4.6bn of net long-term capital surplus and $11.2bn of net short-term capital inflow.

The net long-term capital inflow represented a $17.5bn foreign capital inflow less $12.9bn of Japanese capital outflow. The foreign capital inflow included $8.4bn of investment in stocks and $6.7bn in bonds.

Japanese capital outflow included overseas investment, bilateral foreign aid by the Japanese Government and subscription to international financial institutions.

The short-term capital inflow consisted of a net increase in foreign investment in convertible "free-yen" deposits with Japanese banks and a net increase in Japanese banks' foreign currency borrowings.

These developments took place against the background of gradual liberalisation of foreign exchange and foreign capital transactions in Japan under a packaged of yen-supported measures adopted in March-May 1980, and the new Foreign Exchange and Foreign Trade Control Law, introduced in December, 1980.

They expanded the framework for conversion of foreign currencies, including Euro-yen, into the Japanese currency, along with the gradual lifting of controls over Japanese banks' supply of foreign currency loans to Japanese industries.

In August and September this year net foreign investment in Japanese stocks, which amounted to about $3.3bn during the first six months of 1981, turned into net sales as the Japanese stock market declined sharply in reaction to previous excessive expansion of margin trading and fresh capital issues, and under the influence of a fall in a New York Stock Exchange disappointed in President Reagan's economic policies.

Japanese stockbrokers point out that the fall in Japanese stock prices from this year's peak was relatively small compared with similar declines in other exchanges of the world. They were expressing confidence that foreign investors, including the Opec nations and pension funds, will be attracted again by continued good performance of the Japanese economy.

Balance of Payments
SABURO MATSUKAWA

In view of the growing current account surplus—thought liable to provoke outcry against Japanese exports as occurred in the 1979-80 period—Japan's Government and industries are discussing measures to avert such a situation.

Mr Renzo Taguchi, chairman of the Co-ordinating Committee of the Foreign Trade Council, an advisory body for Prime Minister Zenko Suzuki, said in a Press statement that Japan should strive further to expand its imports, especially manufactured goods, through the encouragement of domestic demand, increases in import quotas (for agricultural products and other goods), and cuts in import tariffs. He also said an increase in the imports of manufactured goods would not only contribute to the industrialisation of exporting countries but would also help the Japanese improve their standard of living.

He said he was in complete agreement with a previous statement by Minister of International Trade and Industry Rokusuke Tanaka in favour of increased imports of manufactured goods to avoid trade frictions and would like to call on the Japanese Government to strive further to make institutional changes for this purpose.

Some other measures are also being studied by Japanese Government agencies and industries to increase Japanese imports to reduce growing current account surplus. They include a plan to build up a Government stockpile of the rarer metals, including nickel and chromium, and another scheme to increase the state stockpile of crude oil, to be kept in idle tankers and possibly in land storage tanks.

Japanese officials and businessmen are also talking about increased industrial co-operation with Western countries, especially West European nations, through mutual investment to establish joint ventures and joint technological development.

But Japanese traders are apprehensive that such measures may not be enough to avert trade frictions with importer nations, especially the EEC countries. Japanese Government sources said the EEC is especially alarmed by increases in Japanese exports of items like cars, colour TV sets and machine tools, and is asking Japan to give estimates of exports of these goods in 1982.

Currency remains under strong U.S. influence

HIGH U.S. interest rates have kept the yen down despite an improvement in Japan's current account and a low inflation rate at home. One result is a surge in Japanese exports, which will tend to boost the Japanese currency.

Changes in the yen-dollar exchange rate since the beginning of 1981 have shown that the yen remains essentially a local currency under the strong influence of the dollar and the U.S. policy behind it.

Early in the year, when the yen briefly broke through the Y200 to the dollar line, many Japanese experts predicted that it would reach Y180 within a few months. The pattern was forecast to be similar to the rise of the Japanese currency in October 1978, when it rose to Y176 before President Carter's dollar-defending package, announced on November 1, brought about a turnround. It was believed that U.S. interest rates would soon decline from their high level as they did in 1980, reversing the movement of capital and causing the dollar to weaken.

As U.S. interest rates continued to soar rather than decline, the yen lost ground to Y218.70 to the dollar in April, to Y239.65 in June and Y246.40 in August, before recovering to the Y225-Y235 range.

An outstanding factor responsible for the weakness of the Japanese currency was the U.S. effort to contain inflation by monetary policy alone, whose impact more than offset the effects of the good performance of the Japanese economy, including a steady improvement of Japan's balance of payments helped by the world oil glut and a low inflation rate, which declined to below 4 per cent in mid-1981. Expectations that U.S. interest rates would peak soon, aroused by statements by U.S. leaders, sometimes brought about a temporary strengthening of the yen, usually short-lived.

Another element in the situation was that the Japanese monetary authorities, concerned as they were about possible increases in Japanese prices because of the lower yen, apparently did not wish to spend too much of the dollars they held to support the yen.

Japan's external reserves increased from $26.29bn at end-January to $27.84bn at end-June and declined only slightly to $27.66bn at end-August. This indicates that the Bank of Japan's yen-support intervention in the foreign exchange market during the period was generally small in scale.

The Yen
SABURO MATSUKAWA

There were also technical and psychological factors, which were explained by Bank of Japan Governor Haruo Maekawa at a recent Press conference as follows:

"From early this year on, people thought that the yen was bound to appreciate, judging from Japan's balance of payments and price movements. I myself secretly followed that line of thinking, while newspapers also made the prediction in chorus. In these circumstances foreign exchange operators developed a tendency to sell an increasing amount of forward dollars.

"As a result, several months later there was a decline in the supply of dollars, because dollars that were due to come into Japan had already been sold through forward transactions. I think this was one of the reasons why the yen depreciated so much against the dollar in July and early August." One-way movement of the market tends to overshoot, he added.

In mid-July Finance Minister Michio Watanabe told a meeting of Japanese businessmen that the Japanese monetary authorities might have sold a large amount of dollars, if necessary, some time earlier to support the yen at the 230.00-to-the-dollar level, because further depreciation of the yen might have caused Japanese prices to rise sharply. The statement may have had the unintended effect of inviting buying of dollars which might be sold in this way.

Governor Maekawa said the Bank of Japan was worried about a subsequent decline in the yen's value, especially when it reached Y241 to the dollar early in August. He had repeatedly stated at Press conferences that he believed the yen was grossly undervalued, but his words alone were not enough.

"The Bank of Japan then intervened in the market in a small way "just to show that we are not pleased with the yen's exchange rate and indicate that there might be a sudden increase in the supply of dollars," pointing to the possibility of massive selling of dollars by the Bank of Japan.

CONTINUED ON NEXT PAGE

Gradual steps towards increasing world involvement

MAJOR CHANGES are underway in the Japanese financial system, changes which point to further internationalisation in the 1980s. This trend, which began in the closing years of the 1970s, has been slow and uneven. Nevertheless, the financial system of the free world's second largest economy is undergoing liberalisation, achieving greater flexibility and in the process attaining international sophistication.

Internationalisation is manifested in several ways. First is the growing overseas activity of the Japanese banks. A decade ago the 12 city banks earned some 5 per cent of their net operating income from international business. Today that share has doubled, with expansion to the 30 per cent level generally expected in Japanese banking circles by the end of the present decade.

While much of the increased international business is accounted for by trade-related financing and foreign exchange, a growing proportion comes from offshore term loans, which at present total more than $35bn. About three-quarters of this sum is in foreign currencies (primarily U.S. dollars) but yen volume is growing steadily.

This points to the second manifestation of Japan's internationalising financial system—the yen's growing use as a global currency. This has been a development largely of the past three years and is certain to intensify.

Besides the expanding use of the currency in offshore lending activities of the Japanese banks, a more important factor has been the steadily enlarged role of the yen in Japanese trade.

In the early 1970s yen-denominated exports accounted for only 2 per cent of total Japanese exports. Today this share has jumped dramatically to 32 per cent. Over the same period the annual value of Japanese exports surged from less than $20bn to well over $125bn, meaning that some $40bn equivalent of Japanese exports is being financed in yen, up from less than $500m only a decade ago. As this trend continues in step with the expansion of Japanese exports, overseas buyers will find their need for yen steadily increasing, a development which can only further expand the already growing international role of the Japanese currency.

Another key factor prompting the yen's internationalisation has been the dramatic increase in yen assets held by non-residents, which today amount to the equivalent of about $65bn net. Of this capital flow, some 60 per cent is estimated to have gone into Japanese stocks and bonds, with other popular yen holdings being free yen accounts at domestic Japanese banks, negotiable certificates of deposits and Euro-yen deposits.

While activity by Western institutional investors is growing, the greatest interest in yen instruments has been that of the monetary authorities of the Middle East, South-East Asia, and Latin America, all broadening their portfolios beyond the traditional bastion of the U.S. dollar. Indicative of this shift in official investment preference is that an estimated 5 per cent of total international reserves is now carried in yen—a significant increase from the comparable 1 per cent figure of the mid-1970s.

A third manifestation of the internationalising of Japan's financial system is the steady evolution of Tokyo as an international financial centre. The city has without doubt many of the essential prerequisites of an international financial centre for both yen and dollars—a highly efficient communications and transportation network linking it with all the major financial and industrial centres of the world; an active foreign exchange market (with daily turnover of spot, forward and swap transactions running to about $3bn); a wide range of highly professional domestic financial institutions and bankers; a well-represented foreign banking community and a central bank whose officials are widely regarded as among the best in the world.

International Scene

ERIC HAYDEN*

While the evolution of Tokyo's international financial role has been slow and uneven, its direction cannot be disputed. A major factor behind the gradual changes has been the force of outside events, particularly the development of Japan as a global economic power. While this trend has been most noticeable in the trade arena, it is also being propelled by such forces as the growing international activities of the Japanese banks, the expansion of the non-resident yen bond market (known locally as the "Samurai" market), and the increased use of the yen as an international currency of settlement, investment and reserve holding. One additional force is the Euro-yen market, composed of yen held outside Japan.

According to unofficial estimates, the Euro-yen market has quadrupled in size from about $5bn equivalent at the end of 1978 to some $20bn today. Despite its relative smallness (vis-a-vis the net $650bn Euro-dollar market), the rapid expansion of the Euro-yen market is a reflection of two factors: the increased interest of non-residents in holding yen assets and the curbs on most domestic bank deposit rates along with the 20 per cent withholding tax on interest payments. So long as such artificialities prevail in the domestic market, the Euro-yen market will continue to thrive and expand, suggesting eventual problems for managing domestic monetary policy.

To counter this potentially destabilising effect, the authorities recognise all too well the need to liberalise domestic interest rates in order to provide non-resident investors with yields commensurate with those being offered in the offshore yen market. Within the confines of the Japanese system this will no doubt continue to be a slow and convoluted process.

Besides the normal lethargy and reluctance for change inherent in any bureaucracy, there is the more pressing problem of the country's substantial fiscal deficit. Not only will its size keep the tax authorities at the MoF from rushing to waive the interest withholding tax; the growing debt service burden continues to be the major obstacle in permitting the evolution of a truly free domestic financial market dictated by the forces of supply and demand.

Along with the development of Tokyo as a yen-based international financial centre is the matter of the city's potential emergence as a dollar-based centre. Somewhat surprisingly, the inevitability of this evolution is not as readily accepted by Japanese officials.

One recurring objection focuses on the potentially adverse impact of "leakages" from the offshore centre on the management of the domestic money supply. Although offshore banking facilities are theoretically separable from domestic financial activities, the ending of Japanese foreign exchange rules is seen by the authorities as a factor weakening the "membrane" which they would like to maintain. Authorities are also concerned that the necessary incentives for attracting Euro-dollar business, namely, an end to the withholding tax on interest earned and an appreciably reduced corporate income tax for financial institutions engaged in offshore dollar business, would complicate their already sizeable fiscal problems.

Finally, given Japan's sensitivities as to how it is viewed abroad, particularly in its Asia-Pacific backyard, another difficulty frequently cited within Japan is how to establish a Tokyo dollar market without undermining the competition between Hong Kong and Singapore (and to a far lesser extent, Manila) to become the Asian offshore currency market.

These potential obstacles notwithstanding, there are equally compelling arguments for Tokyo to realise its latent potential. At the opening of this decade it is of considerable importance, particularly in the Japanese context, that discussion on the subject is becoming more frequent in local financial circles, and it is even reported that both the Ministry of Finance and the Bank of Japan are exploring the possible ramifications.

The logic of Tokyo's role as a major international dollar-based financial centre is at least three-pronged. First is Japan's economic size, business activity and banking strength—all of which make it the economic centre of Asia-Pacific and presumably should also make it the financial centre, whether for dollars, yen or any other freely convertible currency. Second is the relief that such a role would afford local banks as they seek to increase their supply of dollars to fund the country's mounting oil import bills. While this need would be drastically reduced if oil were even partially denominated in yen, such a fundamental shift will occur only gradually. Even if it were to occur immediately, however, the Japanese need for dollars would not disappear, which points to the third factor supporting the evolution of Tokyo as a major dollar-based financial centre.

This is the major alteration underway in the country's economic structure stemming from both oil crises of the 1970s. Traditionally Japan has been able to finance its large invisibles deficit through buoyant export earnings. Indeed it has persistently run a trade surplus every year since 1964. The continuation of trade surpluses for Japan becomes increasingly uncertain, however, given the changing international environment reasonably likely in the 1980s. This includes slower global economic growth, increased Western protectionism and hence reduced world trade expansion; higher oil prices, meaning steadily growing import costs for the non-oil producer nations; rising export competition from the "new Japans"; and steadily upward pressure on the value of the yen, assuming that Japan continues to prove resilient to the new environment.

Under these conditions, Japan will need a viable alternative to the traditional export surplus if it is to avoid major dislocations in its external accounts. That alternative is the invisible earnings attendant to the country becoming a major creditor nation.

One source of invisible earnings will be dividends from Japan's swelling offshore direct investment, which will continue to expand significantly from today's $45bn. Another major source will be the offshore earnings of Japanese banks. While the yen funding base of these institutions is relatively stable, their ability to raise dollar remains problematic under present circumstances. Assuming the dollar will remain the world's major currency for at least the foreseeable future, the dollar shortage of Japanese banks will be a continuing major constraint on their overseas activities.

In short, the viability of offshore dollar lending requires the development of a secure source of dollars in Tokyo. If the current attraction of Japanese equities and bonds to Opec dollar holders proves to be a long-term phenomenon, such inflows will contribute to the broadening of the local dollar base, whether as a source of funds for the Japanese banks' offshore lending or for their financing of dollar-denominated imports. However, petrodollars are potentially too volatile—being vulnerable to sudden reversals of sentiment and hence to flight out of Japan consequent on a future oil crisis—to form the basis of a viable dollar-based funding source.

Far more sound from Japan's point of view would be to develop a stable dollar deposit base in Tokyo, thereby guaranteeing local banks the supply of funds they need for offshore lending and trade financing. Without such a secure funding base, the non-yen activities of the Japanese banks will remain dependent upon outside currency sources like the U.S. bankers' acceptance market or the London CD market, thereby keeping them vulnerable to such external factors as a "Japan rate" (the borrowing premium Japanese banks had to pay in 1974 at the height of the first oil crisis) or capital (or credit) controls imposed by the U.S. to defend the dollar against a future crisis.

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The yen—strong U.S. influence

CONTINUED FROM PREVIOUS PAGE

The tactic piece-meal intervention, while letting the market take its course, succeeded and the yen turned round quickly.

The yen's depreciation since the beginning of 1980 helped Japan improve its current account balance faster than expected. Had the Japanese currency appreciated to Y180 to the $ as predicted, and also gained strength against European currencies proportionately, Japanese exports would have been adversely affected. The lower yen facilitated continued promotion of exports in general, particularly those of ships, industrial plant facilities, and many other products.

At the same time it was difficult, if not impossible, to accuse Japan of deliberately keeping the yen's exchange rate down, because high U.S. interest rates were working to depreciate West European currencies as well. The strong dollar, which also played a role in bringing about a decline in crude oil prices, helped Japan overcome the impact of previous oil price increases on its balance of payments.

On the other hand high U.S. interest rates, coupled with declining Wall Street confidence in President Reagan's economic policies and excessive capital issues in the Japanese stock market, have caused a deterioration of Japan's long-term capital account.

Mr Maekawa said he believes that the yen is still somewhat undervalued, while adjustment is also due for the yen's high value against West European currencies. Mr Yoshitoki Chino, deputy chairman of Daiwa Securities Co., said that the Y225-235 range is "comfortable" because it is promoting Japanese exports without causing a rise in Japanese prices. He said, however, that the Japanese currency would probably rise to around Y210 to the $ by the end of 1981.

He was assuming that the U.S. prime lending rates would fall a few points to around 17 per cent. Many other economists and officials were making similar forecasts, on the ground that Japan's current account surplus would increase sharply.

Monetary officials say Japan is reluctant to allow the use of the yen overseas to increase too much, especially as a reserve currency, although they realise that such a development will be inevitable. Enforcement of the new Foreign Exchange and Foreign Trade Control Law in Japan in December 1980 has expanded both foreign exchange and capital transactions on the Tokyo market.

Spot foreign exchange trading volume in Tokyo increased from around $800m daily in November 1980, to $1.2bn/$1.3bn in mid-1981, while the outstanding balance of foreign currency loans to resident Japanese banks increased by 71 per cent to $15.4bn at end-August 1981.

Expansion of Japan's foreign trade and two-way capital flow have steadily increased the amount of yen held overseas, estimated at more than $50bn at end-1980, including $10.7bn held by foreign central banks and governments according to IMF statistics.

Two proposals are standing for the further internationalisation of the yen. Finance Ministry officials say they are conducting research and study on the possibility of opening an offshore dollar market in Tokyo. The main question is not whether tax benefits could be given to the market but whether the emergence of a large free market would produce adverse effects on a strictly controlled domestic capital market. Officials point out most off-shore dollar markets are situated in places where free domestic markets also exist.

The other proposal is for the establishment of a market for yen-denominated export and import bills in Tokyo, similar to the bankers' acceptance (BA) market in New York. Japan's foreign trade is mostly conducted in U.S. dollars, except for a few per cent of imports and 30 per cent of exports. This makes Japan particularly susceptible to the vagaries of the U.S. money policy. But the Bank of Japan is strongly opposed to the establishment of a BA market in Tokyo, on the grounds that the central bank would have to supply yen funds to the market outside of its direct controls over credits.

The tactics taken by the Bank of Japan in early August, though successful, indicated that the foreign exchange market is sometimes liable to get out of control when large amounts of dollars overseas are mobilised for influencing the yen—as they apparently were in October 1978. Mr Maekawa said Japan would like the U.S. to restore the system of concerted market intervention instituted in November 1978.

Liberal moves only partly relax iron grip

FOR SOME time Japan's Ministry of Finance (MoF) has busied itself drafting legislation which would appear on the surface partly intended to moderate its iron grip on the financial system.

The first law to be passed was a new liberal foreign exchange and trade Act, which in principal liberalised all capital transactions which in the past had been as a rule forbidden. Following the exchange law which took effect in December last, legislation was finally passed in the Diet (Parliament) revising the Banking Law for the first time in over a half century. Effective from April next, the streamlined, yet bulkier new law, is intended to define more clearly the powers of the MoF.

Under the old law MoF officials ruled much of their domain through a highly sophisticated system of "administrative guidance." These directives to the financial world carry the force of law; some are formal and others simply "understood" by the parties involved. In this way, the MoF kept a grip on almost every financial activity in Japan — the only clear exceptions were activities such as consumer finance, not dealt with effectively under Japanese law.

The degree to which the MoF guards its discretionary powers is reflected by the elaborate precautions taken with each legal change to assure the continuity of its controls. Those who have dealings with MoF have no doubts that MoF's powers are on the wane. On the other hand, few fault the Ministry for lack of skill or insensitivity in adjusting itself to the country's increasingly complex, and international, financial community.

One amusing example of MoF is inherent caution in giving up control occurred just before the new foreign exchange law took effect.

MoF is empowered to suspend the law in cases of an emergency, say a foreign exchange or balance of payments crisis. Despite the absence of such a crisis, there was internal discussion of the merits of declaring an emergency.

As it turned out, MoF went to great lengths to plug any unwanted loopholes opened by the law. Officials still effectively monitor such areas as international lending, inward investment in Japanese equities, and borrowing abroad by Japanese companies.

The change in the law, however, means that officially it does not "control" these activities. This fine distinction simply means that it is much less easy to pin down the degree of influence wielded by the authorities.

Further confusion about MoF's role in sometimes caused by the fact that quite frequently Japanese banks and securities houses seek out guidance from the Ministry. At least one quiet scheme devised by some banks for lending abroad, while MoF was discouraging such loans, ended when a cautious bank asked officials if it was all right to do so. MoF shook its head, and the scheme faded.

In domestic matters, the power of MoF to persuade is even more pronounced. The best example is MoF's ability to place huge amounts of unprofitable long-term Government bonds with commercial banks. Underwriting banks forced suspension of public Government bonds issues from July to August this year because of unacceptably low terms but in the end most co-operated.

The Government bond drama indeed took an awkward twist last September. MoF agreed to raise the coupon rate on its long-term bonds as a partial step towards meeting underwriter demands. It refused, however, to allow the long-term credit banks to effect a similar increase in the rates for their own long-term capital notes — and thus the important long-term prime lending rate.

A rise in the long-term prime is a politically sensitive issue because of the potential adverse psychological impact on businessmen — as on this occasion, when the Government was promoting a new "package" of measures to stimulate the economy. As a result the long-term credit banks were unable to issue their own fund-raising bonds.

Ministry of Finance

RICHARD HANSON

As one senior MoF said, MoF had "attempted to persuade" the banks to delay the rise. The banks, though not legally compelled, complied. At the time of this writing MoF is still trying to reach a compromise, to contain a general increase in long-term lending rates.

Perhaps the most remarkable feature of MoF's ability to influence and control the financial sector is the efficiency of the operations themselves. The image may be of numerous bureaucrats exercising their powers. In reality a relatively small number of people highly competent people are involved. The short-term Capital Division of the International Finance Bureau, for example, is responsible for foreign exchange market operations and policy, international lending and borrowing, and for monitoring a number of activities of Japanese and foreign banks and other key areas.

There are just nine members listed in the division, though, including the division chief. Including the National Tax Agency and other functions, such as customs and the mint, MoF employs over 75,000. Less than a third, however, work for the Ministry proper, and only a fraction are found in the grey cavernous headquarters in Tokyo's Kasumigaseki, where policy is made.

Traditionally MoF attracts the top students from what are considered the best universities, Tokyo being the top. They form a bureaucratic elite, consciously so, from whose ranks have come an exceptionally large number of national political leaders. Two of Japan's past four Prime Ministers in recent times were former MoF officials.

The reason for this traditional popularity is of course that MoF is the most powerful of the Ministries. Its powers are derived from the fact that it is responsible for both budgetary, tax and monetary policy. The only counterpart in an industrial nation with more clout is probably France's Ministry of Finance, which includes the equivalent of Japan's Economic Planning Agency.

Inside Japan even the Bank of Japan (BoJ), the central bank, acts officially as an extension of MoF, supervised by the Banking Bureau. BoJ, of course, does have a fair amount of influence in forming policies and running the banking system.

The most visible signs of MoF powers are displayed each year as the national budget is compiled. Veteran MoF observers, however, say that the Ministry has lost some of its power to direct the Diet on budget matters. Politicians have become more active in steering budget policies.

The budget has in fact become the most critical Government worry because of the large national deficits run since the mid-1970s. MoF has countered with a tough plan to reduce the amount of deficit — covering national bond issues to zero by fiscal year 1984. This year bond issues were reduced but were still needed to cover a quarter of the general budget, creating a serious strain on the domestic credit system.

Next year the MoF has set guidelines calling for most Ministries and government agencies to keep spending increases to zero. The current Minister of Finance, Mr Michio Watanabe (whose profile appears elsewhere in this survey) has made reconstruction of the Government's finances the Ministry's first priority.

MoF is by no means free of obstacles to carrying out its duties. Its hands are tied and its influence limited by such things as the national bond problem. One result is that MoF has virtually no flexibility to stimulate economic activity through fiscal policy.

One other constraint on MoF policy-making is the separate existence of such bureaucratic rivals as the Postal Savings System, controlled by the Posts and Telecommunications Ministry. The postal system's success in attracting deposits has caused problems for the private banks. MoF and BoJ are also hard-pressed at times to introduce flexibility in monetary policy because of separate controls over postal deposit rates, jealously guarded by the post office.

MoF's own internal organisation is considered by many to be a source of friction in carrying out policy decisions. To some extent this appears to be an exaggeration. The Ministry is organised into nine bureaux, all of which do in fact look primarily for the interests of their own bailiwick, at times at the expense of others.

The classic tug-of-war in the Ministry is between the securities and banking bureaux; securities and banking activities are strictly separated by a law based on the U.S. model. As the functions of the securities and banking communities increasingly overlap, the MoF is indeed hard-pressed to maintain a strict separation.

MoF has already in fact gradually allowed the distinctions between banks and securities houses in their international operations to become blurred. This has in part been facilitated by the intermediation of the International Finance Bureau, which can serve as common ground when international business is concerned. Traditionally the International Finance Bureau was mainly concerned with matters influencing the balance of payments.

The International Bureau's own clout has of course increased as Japanese financial circles have become more international. It is also one of the most important bureaux for upwardly mobile MoF officials — though the key position on the climb to the top of the bureacracy, the Vice-Minister's position, is probably the Finance Bureau, which has overall responsibility for co-ordinating domestic and international finance. Experience in the Tax and Budget bureau is also essential.

Perhaps the secret of how MoF keeps its organisation in line is the constant shuffling of people throughout the bureaux. The bureaux tend to be bastions of self interest but loyalties, it seems, can be automatically assumed on transfer. In other words, a securities bureau man will fight for the securities industry, until transferred to another bureau. Some observers suggest, however, that bank and securities bureau loyalties actually run a bit deeper, and that rivalries are quite strong.

Some claim to read great significance into inter-bureau transfers of personnel. One suggestion is that a wholesale exchange between bank and securities would have to precede any serious attempt to change the present law separating the two.

It is also clear that a certain number of specialists are allowed within various bureaux, to which they can expect to return even if time is spent elsewhere.

The glitter of a career with MoF may be fading somewhat among the next generation, though. This is perhaps partly due to the fact that MoF's role as chief of fiscal austerity is making public service less attractive. A private survey this year shows that more bright young graduates are seeking out positions in the Ministry of International Trade and Industry (MITI), which stands just across the street, and where the next industrial revolution is being hatched.

Power, however, will remain with MoF.

Long autumn task to bring budget deficit under control

JAPANESE politicians face a long hot autumn as they try to thrash out a way of bringing the country's budget deficit under control — a deficit said to be as large as those of the UK, West Germany, France and the U.S. put together.

In fiscal 1981 the deficit is likely to be Y12,300bn on a budget of Y46,800bn. The passage of this year's budget was stormy enough when the ruling Liberal Democratic Party had to use its majority in the House of Representatives to push the Bill through.

The task of settling the 1982 budget will be even more difficult as the Government tries to hold spending to 1981 levels —save in research and technology, foreign aid and, controversially, defence spending. To do this the Government is concentrating on cutting down issues of deficit financing bonds, which in fiscal 1981 funded nearly one-third of Government expenditure. They are also embarking on a much publicised bout of administrative reform.

Prime Minister Zenko Suzuki says he stakes his political life on achieving these cuts and balancing the books without introducing any major new tax measures.

He will face resistance from the Opposition on the areas where cuts are proposed, from the many diverse interests anxious to maintain their subsidies — and possibly even sabotage from Government employees, themselves seeking a 5.23 per cent wage rise.

In the fiscal 1982 budget plan general expenditure — total expenditures minus the national debt service and allocations to local governments — will rise by only 1.8 per cent to Y32,600bn. While bond issues should bring in about Y10,400bn, 14.9 per cent less than in 1981, the Government estimates tax revenue will rise by 14.6 per cent to around Y3,700bn and non-tax revenue by 4.3 per cent to Y2,300bn.

The Government hopes to stop issuing deficit financing bonds by 1984. These have been a major area of complaint from the banks, which say they suffer losses both by underwriting and selling the bonds. City banks estimate their losses last year at a hefty Y600bn, and they say they can no longer afford this kind of public service.

The bonds were introduced in 1975 as Japan coped with the economic slowdown brought about by the oil crisis and the resulting drop in tax revenue. New bond issues climbed to a high of Y8,100bn in 1979, which together with issues of construction bonds totalled Y15,300bn of bonds in that year.

While most bonds mature in ten years, two-, three-, four- and five-year bonds have recently been offered to attract investment from the public.

If the Government is to avoid the danger of floating more bonds to pay debt and redemption charges on bonds already issued, it must cut issues. While it passed up earlier chances to do this, the time for redeeming the first long-term issues is now only four years off. Accordingly in 1980 deficit bond issues were reduced to Y7,600bn and in fiscal 1981 even further to Y5,500bn.

The coming budget for fiscal 1982 will see another Y1,800bn to Y2,000 lopped of issues. If the Government sticks to its plan it will have one year of grace before redemption begins in 1985.

The cuts have already brought down the ratio of Government bonds to expenditures from a high of 39.6 per cent in 1979 to 26.2 per cent in the current fiscal year.

Nevertheless the outstanding public debt for both deficit and construction bonds will continue to rise. In 1980 it was estimated at Y70,000bn and this year at Y82,000bn. In two years it may well top Y100,000bn, say Finance Ministry officials.

The Government hopes to reduce the total number of annual bond issues by eventually phasing out special deficit bonds, but some analysts predict that the public debt could increase further as construction bonds and conversion issues for older construction bonds are increased from present levels.

Public bonds are underwritten by the Government and a syndicate of Japanese banks and financial institutions. They meet each December to share out the issues but the banks say they have little choice but to underwrite a major portion of issues.

Public Finance

JULIA ELCOCK

In fiscal 1981, of all bonds issued the Government accounted for 28.5 per cent, the public for 14.4 per cent and the syndicate for 57.1 per cent. The city banks alone held about 38 per cent.

The percentage has improved in the past few years but slowly. In 1982 the Government will probably underwrite the same Y3,500bn as it did this year.

Initially the banks, especially the city banks, could afford to underwrite the bonds but the increase in the number issued combined with falling deposits have made it hard for them. They want the bond issues reduced and terms improved.

In September the Government raised the coupon rate and yield to maturity on long-term bond issues but the levels are still too far below market rates, say the banks.

The Government has taken some steps to help banks. In 1980 they were allowed to sell bonds to foreign government institutions. So far the response has been limited, athough some bankers believe it could be a big market.

The biggest buyer has been the Government of Saudi Arabia, which during the past six months has purchased $200m of bonds a month. Other Arab countries are said to have purchased bonds through intermediate Swiss banks but the amount is not thought to be large.

Another market both the banks and the Finance Ministry would like to tap is the public. A law passed last year gives the banks the legal right to sell Government bonds over the counter, although no date has been set for sales to begin.

At the moment only security companies sell bonds directly to the public but banks would offer many more outlets than the city-based security companies.

There is still opposition from security companies, said to wield considerable political punch, which fear not only losing the commission they now make by acting as intermediaries between the banks and buyers but other bond sales as well.

A three-man commission will soon meet to decide when the banks can go ahead with sales. Bankers hope to get permission

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Challenging and independent contender for deposits

JAPAN'S venerable (106-year-old) postal savings system, unlike many of its "model" cousins in the West, has refused to fade gracefully into the backwaters of the financial world. Having achieved an incredible tripling of deposits since the mid-1960s, the postal bank is the most controversial (and arguably the most powerful) financial institution in Japan.

One result of its success is a bitter "territorial" dispute with private banks, whose market share deposits it has eroded. The postal system has also locked horns with the Ministry of Finance (MoF), whose ability to control monetary policy is hampered by the postal bank's jealously guarded independence.

The postal system has no doubt played a central role in the economy since it was founded in 1875 during the early days of Japan's rapid modernisation. The postal bank was created primarily to encourage savings in order to channel funds to the Government for use in launching Japan's major new industries. More recently, the funds that it generated helped Japan to recover from the destruction of World War II.

As an institution, its role was (and is) to serve as a safe and convenient means of remitting funds and making deposits. One proof of its effectiveness is the remarkable development of the savings ethic in Japan, which induces an average savings rate for individuals of around 20 per cent—the highest in the world. The result is that with deposits near Y70,000bn (over $300bn), the system would appear to be the largest "bank" in the world.

Last year alone the system attracted over Y8,000bn — a record—in new deposits—or the euivalent of one third of all the deposits held by the giant Bank of America. In the past ten years postal savings' share of all deposits in Japan has leaped from a healthy 20 per cent (roughly the position nowadays of the postal system in Italy) to an alarming (for private banks) 30 per cent. The total is equivalent to one fourth of GNP.

There are roughly three times as many postal accounts and deposit certificates outstanding as there are people in Japan.

The post office attracts deposits by being accessible almost everywhere in the country and offering somewhat better conditions on long-term deposits than allowed by commercial banks. There are 22,310 branches nationwide (surely the largest bank branch system in the world) compared with just over 12,000 commercial bank branches. The entire system will soon be linked by an on-line computer system to make automatic banking services available. Deposits and withdrawals can be made at any branch.

Moreover, the system offers its customers what appears to be the most reasonable consumer loan service in the country. Any depositor can borrow automatically up to 90 per cent of the value of his or her time deposit (up to Y700,000) for six months at a net cost of 0.5 per cent per annum.

Postal officials in fact claim responsibility for pressuring commercial banks into upgrading their consumer services, in recent years. Historically, they say, the post office is the only bank whose sole constituency is the individual (as opposed to corporate) customer. This mandate to protect individual depositors is at the heart of its differences with the Ministry of Finance.

As might be expected, the post office's success in recent years has aroused the ire of the commercial banking sector. Private banks have watched anxiously as their share of personal savings deposits has slipped from over 35 per cent in the early 1970s to 32.5 per cent at the end of 1980.

The slippage reflects in part a general trend away from the rigid banking system to other forms of investment. It was probably accelerated, however, by the fact that the postal savings system can offer better returns on longer term deposits than allowed by commercial banks, a bitter point with the banks.

POSTAL SAVINGS

	Deposits balance (Ybn)	Annual rate of increase per cent	Per cent share of personal savings: Postal	City and local banks
1973*	15,377	25.1	20.4	36
1974	19,431	26.4	21.6	36.1
1975	24,566	26.4	23.1	35.8
1976	30,524	24.3	24.7	34.9
1977	37,726	23.6	26.4	34
1978	44,996	19.3	27.4	33.5
1979	51,912	15.4	28.0	33.2
1980	60,778	18.3	29.5	32.3
1981 (end-June)	63,129	17.9	29.6	32.5

* Fiscal years April-March.

Postal Savings

RICHARD HANSON

Use of the post office as a socially acceptable (though illegal) means of "hiding" bank deposits to avoid paying tax on interest payments has also drawn funds to the lightly audited postal system—though this tax dodge will become more difficult under recently passed legislation to monitor tax-exempt savings accounts. The number of postal accounts in relation to the population gives some indication of how widespread this form of tax evasion may be. News of the new legislation (giving each depositor an identifying "green card" from 1983 on) may have helped stimulate the unprecedented rush to the post office last year.

But the most controversial debate now raging over the role of postal savings goes straight to the heart of Japan's rigid monetary system. The issue is no less than control of monetary policy. The main antagonists are the Ministry of Posts and Telecommunication and the Ministry of Finance along with the Bank of Japan.

For historical reasons the power to set interest rates for the postal savings system has been placed in the hands of the advisory council to the Post and Telecommunications Ministry. The Ministry of Finance, with overall responsibility for monetary policy, is represented on the council but does not have direct control.

On the other hand, the most powerful monetary tool in the hands of MoF is the Bank of Japan's official discount rate, set by a separate panel at the Bank with the Minister's consent.

What this means in simple terms is that MoF can force commercial banks to lower or raise deposit and loan rates in line with its policy stance. MoF must, however, "persuade" the post office to go along with its policies for a major change in interest rates to become effective.

Often the postal savings' view of its duties to individual depositors is, to put it mildly, out of line with MoF policy. The post office, with its motto "We are always with the people," jealously guards its role as "guardian" of the little man. For most of the postwar period this caused little stir. Deposit rates were mostly stable until the "shocks" to the economic system of the early 1970s. Rapidly changing conditions have shown the "dual interest" rate structure to be disastrous for monetary policy makers.

In 1972 the worst-ever example occurred. For six months the post office refused to agree to a lowering of deposit rates (which had been unchanged in 10 years), while the Bank of Japan argued strongly for an easing of credit in the wake of the crisis sparked by the previous year's Nixon economic shocks.

By the time a "consensus" had been reached, and the cumbersome process of adjusting the interest rate downward set in motion, economic conditions had changed dramatically. Far from stimulating an economic recovery, relaxation of credit occurred just in time to add fuel to what was to become a period of runaway inflation. This was perhaps the worst case of economic mismanagement in the postwar era, though a similar snag help up a critical change in policy in 1975.

Typically, the BoJ, while admitting the error, blamed the faults and delays in the policy direction on the postal system. The post office can claim that its original opposition to lower rates was, with hindsight, justified by subsequent events.

The problem of unifying the decision-making process on interest rates was dealt with extensively by a blue ribbon commission set up by the Prime Minister's office. In August a report was issued recommending among other things that all interest rates be set together by one authority. The separation of postal savings rates, the report argues, is not compatible with the general gain towards "liberalising" the interest rate structure in line with Japan's greater internationalisation.

The postal savings system is in fact probably the major barrier to the type of decontrols some "liberals" argue are inevitable in the banking system as free-wheeling market pressures become a more important force in Japan's financial markets.

Simple solutions to the dilemma are unlikely to be found in a hurry. Having made the reform-minded report public, the Government quickly swept the issue under the carpet with a temporary "political" solution. This consisted of the Chief Cabinet Secretary declaring rather vaguely that all parties concerned have agreed to act in line with overall Government economic policy needs. There is little sign that a test of the political agreement is imminent, but it clearly does not solve the basic problem.

The Posts and Telecommunications Ministry, no slouch at intra-ministry rivalries, has meanwhile launched a largely diversionary attack on the Finance Ministry. After rebutting recommendations for change, mostly inspired by MoF, the post office proposed that it be given greater control over use of the funds it collects through the postal system.

The Finance Ministry understandably rejected this idea immediately. The proposal hit squarely at the Ministry's most sacred of sacred cows, the Trust Fund, which is the sole recipient and manager of postal saving funds under an arrangement dating back to 1875, when the postal bank was created. This fund is the basis for the Government's crucial National Investment Programme, the second tier of the national budget.

The importance of the postal savings system to Government finances is perhaps the single most compelling reason why the system will change slowly, if indeed at all.

Last year the weight of postal savings in the National Investment Programme budget of Y100,000bn jumped to 60.5 per cent. In 1972 the share was only 15 per cent. Postal savings thus contribute heavily to the financing of everything from the Government housing loan programme, small business financing and regional development to the deficit-ridden National Railways, the Government's development bank and the Export and Import Bank.

The final, though in recent years perhaps the most important new use of the funds, is to purchase the long-term bonds issued by the Government itself to cover a yawning deficit in the general account budget. Last year the fund's contribution was a hefty Y3,500bn. Ironically, the surge in deposits in the postal savings system in 1980 made Y1,000bn more than originally expected available for this purpose. This would appear to reduce the burden of absorbing huge amounts of Government bonds which falls on the commercial banking sector.

The post office can derive a certain amount of self-satisfaction from the fact that its role is far from over. Playing a central part in reconstructing the Government's own finances is perhaps the final irony of its intra-Ministry rivalry with MoF. The postal system's own booklets describe this type of service, appropriately as "for the greater happiness of all."

Brisk trading at the Tokyo Stock Exchange during the period earlier this year when the Tokyo Dow index was seesawing wildly

Long autumn task

CONTINUED FROM PREVIOUS PAGE

by 1983. They are already preparing internally for sales; ironically, some bank staff are being trained by security companies.

The Government's success in cutting bond issues depends on the success of reducing expenditure—and later, on real administrative reform. For Mr Suzuki there is now no going back and failure will give those anxious to succeed him a good opportunity.

The Provisional Committee for Administrative Reform was set up by the Government in March and made its first recommendations in June of areas where spending could be reduced in fiscal 1982. The committee denies that these cuts will affect those—the old and children—who carry little political weight and not big money wasters like the national railways. Its next report on administrative reform is due next year.

Planning for the fiscal 1982 budget began earlier than usual this year and by the end of August budget requests closed with a total demand for Y49,500bn—the smallest increase rate over the previous year since the war.

This does not include the proposed civil service pay rise which could add Y400bn to spending—or the recent rise in interest rates which adds another Y150bn in interest payments.

The Government finds itself in a cleft stick over the rise demanded by its employees. If it fails to agree the rise it may lose valuable political support from their union. There is even the possibility that Government employees could frustrate attempts at administrative reform.

Agreement to the full amount it will be expensive and disrupt plans for reducing the deficit. The Government has so far postponed any decision.

In 1981 the tax office worked hard to increase revenue from traditional sources by raising tax rates. Because of the Prime Minister's promise it will not be able to do the same for 1982 and tax revenue is expected to be close to this year's amount.

The Finance Ministry has been working for some time on a new tax. 1981 issue of the Japanese tax manual indicates that a broadly based consumer tax may be inevitable to maintain public services. But it would only be introduced after a review of expenditure and a maximisation of tax revenue from current sources, the manual says.

With elections in 1984, 1983 is the last real chance for the introduction of a new tax. It is almost guaranteed to be unpopular. Attempts to introduce a VAT-style tax in 1979 proved disastrous.

Now the ministry is studying other broadly based taxes similar to a Canadian-style manufacturers tax or the North American retail sales tax. More immediately it would like to rationalise the system of commodity taxes, now restricted to only a few items.

While most people think the Government will achieve its aims for fiscal 1982, barring major political upheavals, no one is predicting the long-term outcome. Some businessmen are sceptical about how deep administrative reform will go and they doubt the Government will meet its target for reducing deficit bond issues.

QUARTET OF VIEWS

Japan's traditionally rigid financial system is being pushed into adopting more liberal attitudes because of the country's major role in world trade. In the view of four of the country's leading men of finance changes lie ahead — but at a Japanese rather than Western pace.

PROFILE: MICHIO WATANABE

Colourful head of Finance Ministry

MR MICHIO WATANABE is surely the most colourful politician in memory to serve as Finance Minister, a job which now carries with it the decidedly dull responsibility for reconstructing the Government's deeply troubled finances.

He has tackled the job of "selling" reform to the public at large with the enthusiasm of a street hawker, a trade Mr Watanabe claims to have practised for a while after the war. Being a salesman, he says, taught him how to be persuasive as a politician.

He will need every bit of that talent in pushing through his Ministry's plans. By 1984, the Government hopes to eliminate current deficit covering bond issues. Last year national bonds were cut to about one-fourth of the budget from one-third the year before. In order to achieve next year's target, requests for spending increases in general budget are being kept to zero, with only certain exceptions such as defence and foreign aid.

"It will take five to 10 years to achieve genuine reform," he warns. The first three years being very hard times.

The Minister, now 58, claims to have had his share of hard times during his own life. The son of a professional military man, he was raised in poverty by his uncle, a farmer and Shinto priest. His career as a politician began with election to his native Tochigi Prefectural Assembly, to the north-east of Tokyo.

After losing one race for the Lower House of the Diet, he was elected in 1963. Within the ruling Liberal Democratic Party (LDP) he is known as a man of conservative views, but he has not been tainted by the same suspicions which seem to plague other right wing LDP politicians.

A former member of the conservative Nakasone faction, Watanabe has drawn attention of late to what appears to be the beginnings of his own political faction. This would be a prerequisite of any future bid for party leadership. He is already being spoken of as a future prime minister.

Before being named to the Finance Ministry in July 1980 when the Suzuki cabinet was formed, Mr Watanabe held cabinet positions in Welfare and Agriculture. He seems to relish a good fight and in both previous positions managed to create controversy.

Mr Watanabe is short and well-rounded in appearance, with a ready smile. He bubbles with energy and has a flamboyant style of communicating — rarely seen in senior Japanese politicians.

Last year, for example, he insisted on wearing traditional Japanese garb while attending the main reception at the IMF-World Bank annual meeting. He regularly appears on television talk shows—not just serious debate sessions—to bring home his message on the need for fiscal austerity. His sharp sense of humour makes for entertaining public speeches, while displaying a sound grasp of knotty budget and tax problems. At a recent appearance at the Tokyo Press Club, Mr Watanabe's brand of humour came through in a suggestion that the deficit-ridden National Railways turn the super express Shinkansen train into an all-night cabaret. He even claims a talent for reading minds.

His attempts to popularise even such an obviously unpopular cause as belt tightening in the Government have of course made him into something of a hero within the Finance Ministry. He was chosen for the post partly because of his experience on the budget committee of the Lower House of the Diet, where he came to appreciate the details of the Ministry's work. His early training was as an accountant in the Army during World War Two. He held the rank of sergeant.

Mr Watanabe insists that he harbours no political ambitions for the time being. "My principle is to concentrate on being Finance Minister. A Finance Minister should not want to be a Prime Minister," he says.

Richard Hanson


Mr Michio Watanabe

PROFILE: TOSHIO AKASHI

Leader in 'People's bank' thinking

MR TOSHIO AKASHI, president of Sanwa Bank, is not everyone's idea of a typical Japanese banker. Brought up on a small island in the Inland Sea (where his father was the only doctor) he could almost as readily be taken for a prosperous farmer as for the head of the nation's fifth largest commercial bank.

Mr Akashi did not choose to become a banker (though he did choose not to follow his father into the medical profession). He entered Sanwa because it was the first major company to hold entrance tests for graduating students of Tokyo University's law faculty in the year that he was due to graduate. Immediately after joining the bank Akashi went off to fight in the Pacific War. So it was four more years before he began to grasp what he now sees as the crucial role that banks play in modern society.

The Sanwa Bank that Akashi joined in 1941 was a "People's bank," in the sense that it did not form the core of one of the pre-war "Zaibatsus" (or big business groups) but rather aimed to serve individuals and small and medium-sized companies.

Today, says Akashi, Sanwa is a "People's bank with a difference." The reason for adding the words "with a difference" is that nearly all the major Japanese city banks have recently been forced to widen their operations from a traditional concentration on major corporate customers to a modern "consumer-orientated" approach. Sanwa, however, has been doing this all along and can fairly claim to be more consumer orientated than the rest.

It is proud of its position as the top-ranking holder of individual deposits among the city banks and as the bank with the highest ratio of loans to small and medium-sized companies (51 per cent of total lending at the end of fiscal year 1980). Akashi admits that Sanwa's consumer-orientation affects profit levels. Sanwa has a higher deposit cost and a narrower spread between loan revenue and deposit costs than any of the other Big Five. This very fact, however, has tended to make the Bank more interested in seeking cost-cutting innovations, and in developing new types of business, than most of its rivals.


Mr Toshio Akashi

Sanwa was the first Japanese bank to use computers. It also led the field in the introduction of credit cards and in going into leasing. The bank's innovative record matches what Akashi calls an "open organisation" within which ideas are freely exchanged. The bank was the first major company in any Japanese service industry to use quality control circles as a vehicle for collecting bright ideas from employees on how to improve its services to the public.

Like other big Japanese companies Sanwa today finds itself at the centre of a "group." But the Sanwa Bank Group, according to Akashi, is something very different, and on the whole much more flexible, than the tight networks of companies that surround some of the former zaibatsu banks. Sanwa's group began to form around 1967 when the emergence of new lines of activity such as ocean development and information processing began to call for collaboration between industries that had *traditionally* minded their own business.

To further such collaboration the presidents of 39 companies that are important customers of Sanwa Bank meet once a month at the Sansui Kai (or Third Wednesday Club) while the middle management of a slightly different selection of companies congregate at the "Clover Kai" (a green clover leaf is Sanwa's corporate symbol). Sanwa does not aim to take the lead in organising companies which belong to these clubs. "It would be wrong to try to do this," says Akashi, "because the banking industry is only the "shadow" cast by the real economy, not the engine or nerve centre.

Akashi's views about the future of his own industry, like those of other leading Japanese bankers, are sombre to say the least. He sees difficult times ahead in which only the fittest will survive and in which the less fit may find themselves the victims of reorganisation or mergers. Being one of the survivors in Akashi's view will boil down to making sure that one is "appreciated by one's customers" no matter how much effort or sacrifice is needed to ensure this.

Akashi knows what he is talking about when he speaks of survival." Two of three key episodes in his 40-year career with Sanwa *involved client* company rescue operations that were eventually successful, but which could well have failed without his talent for building up confidence and mutual trust among people in awkward situations. Those same talents may be needed again during the difficult years ahead.

Charles Smith

PROFILE: MICHIYA MATSUKAWA

Cautious approach to change

MR MICHIYA MATSUKAWA became a familiar figure in international monetary circles in the late 1970s while serving as Vice Minister of Finance for International Affairs. Last year he made the transition to the private sector as senior adviser to the president of Nikko Securities. He remains, however, immersed in international affairs, while not acting as, in his own words, a "sandwich man" advertising his new employer's wares.

Mr Matsukawa began his career with the Ministry of Finance in 1947 while Japan was still under the control of the occupation forces. (His first brush with finances was as a naval paymaster while serving as an ensign late in the war.) His job was in the office responsible for liaison with the occupation government.

An apparent facility with foreign languages and ways is partly due to that experience, and his posting to Washington in 1950 as part of the first post-war group of young MoF officials to study in the U.S.

Mr Matsukawa's philosophy perhaps reflects the rapid changes of those days. He says: "Our basic philosophy is to live in nature . . . when the outside world is evolving we learn to adapt."


Mr Michiya Matsukawa

Japanese monetary policy, he believes, is also unlikely to change rapidly except under the force of outside events and pressures.

Mr Matsukawa's experience over more than three decades within the Ministry of Finance (in both domestic and international matters), is amply reflected in his rather cautious views of where Japan's financial system is heading. While Japan is gradually changing into a more open market, he says, the "tempo of change will be slower than Westerners think." Ten years, he suggests, is a more reasonable time span for substantial shifts in such things as the largely rigid interest rate structure.

Likewise, the legal "wall" separating bank and securities industries in Japan will remain strictly in place, he believes, even though many practices are changing rapidly on either side of the wall. He expects Japan's evolution to be a much slower version of what is now going on in the U.S., where the banking system is changing rapidly now that financial alternatives such as money market funds are readily available.

A change in the law separating securities from banking will have to wait at least until similar changes occur in the U.S. regulations, on which Japan's are modelled, he says.

Mr Matsukawa's view of opening up an offshore financial market also reflects more the official view than what the private sector might like to see. "I don't see any merit. So far we have been doing beautifully in both the domestic and international market (without any offshore centre at home)," he says.

An extraterritorial presence, in his view, would only serve to open up loopholes to monetary and foreign exchange policies, making them less effective. "We don't need it."

Richard Hanson


Mr Setsuya Tabuchi

PROFILE: SETSUYA TABUCHI

Top man's eye on money markets

MR SETSUYA TABUCHI may be one of the most powerful men in Japan, but he is certainly no autocrat. The president of Nomura Securities, Japan's largest financial institution and the most profitable securities house in the world, is a firm believer in the Japanese tradition of delegation.

Japan's securities industry is involved in a running battle with the country's *banks over lines of demarcation* in the financial sector. But Mr Tabuchi generally stays out of the fray, leaving the floor to Mr Kiichiro Kitaura, the chairman of the Securities Dealers Association of Japan and, by coincidence chairman of Nomura.

Nomura has now reached almost saturation point in the Japanese securities market and is concentrating its energies on building up business overseas — in banking *as well as securities.* The principal architect of the strategy is Mr Masanori Ito, an executive vice-president and by common consent the most powerful man at Nomura after Mr Tabuchi.

Asked how he sees his own job, Mr Tabuchi emphasises his responsibility to the company's employees and points out that, with several thousand graduates in the Nomura family, it would be impractical for him to try to run the whole show himself. *But it would be wrong* to see Mr Tabuchi as a glorified personnel manager.

Nomura's greatest strength is the marketing of securities within Japan. Mr Tabuchi carved out his own career at Nomura as a salesmn in the corporate finance department and clearly has an astute eye for marketing. Since his appointment as president three years ago Mr Tabuchi has effectively consolidated Nomura's position as the leader in the domestic *securities field.*

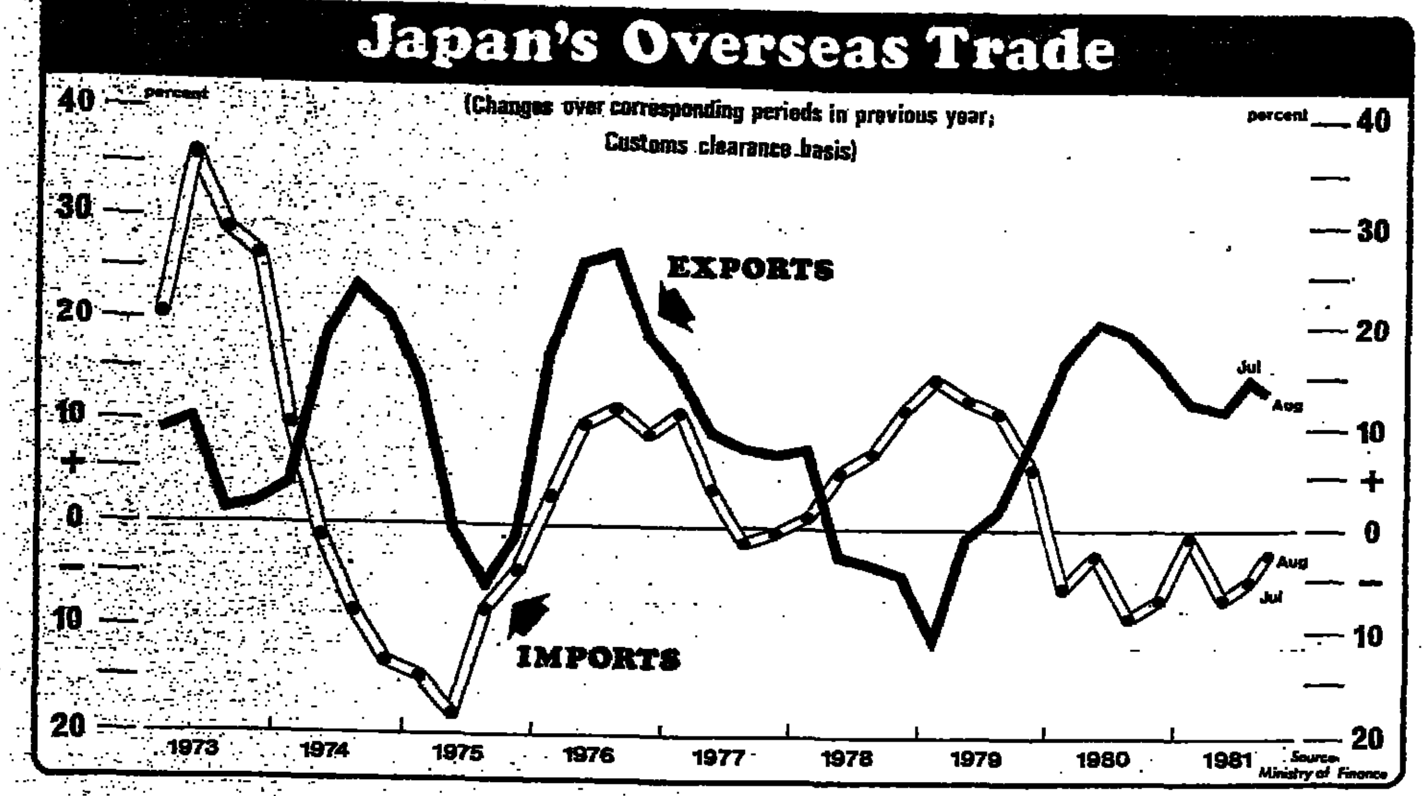
At the same time Mr Tabuchi comes across as a convinced internationalist. He says he would welcome competition from foreign firms on the Japanese stock markets and expects Tokyo to *take its place* behind London and New York as the third international centre for finance.

Yet Tokyo is still a relatively closed financial market, heavily regulated by the Ministry of Finance. The greatest change that Mr Tabuchi foresees in the next *few years will be in the under*developed money markets. The Government will lean increasingly towards short-term finance, Mr Tabuchi believes, money market mutual funds will be established and trading in certificates of deposit and commercial paper will be developed. Nomura itself is already pushing down this road by offering a fund in U.S. Treasury bills to Japanese investors.

A skilled exponent of the *game of Go and an enthusiastic* golfer, Mr Tabuchi has few of the superficial attributes of the Japanese executive—beyond a heavy addiction to nicotine. He smiles rarely and answers questions through an interpreter with exceptionally short and direct sentences.

The 58-year-old Nomura president is certainly a pragmatist. One Nomura executive recalls having Mr Tabuchi as his first section chief when he joined the company many years ago from university. The new employee, who saw the securities industry as a vehicle for the economic reconstruction of Japan, was horrified at his section chief's insistence that the name of the game was selling stock. One of Mr Tabuchi's strengths is the recognition that it still is.

John Makinson



Local business failures add up to heavy loan losses

Foreign Banks

RICHARD HANSON

THIS LAST year has not been a kind one for foreign banks in Japan. A great deal of innocence seems to have been lost, and a few treasured illusions shattered. Several banks may have lost a great deal of money on bad loans, and a good number are being squeezed by tougher competition, and declining profits.

To make matters worse, very *few seem confident of the role they will be playing in Japan* from now on. They do realise, however, that the good old days are gone.

An unprecedented number of prominent foreign banks found themselves embroiled in two unseemly local business failures. Fourteen of them had lent about $100m to a small Osaka stock financing company; a dozen were involved for a similar amount to an unrelated group of companies in Hokkaido. In both cases foreign bank (as well as Japanese bank) loans were put in jeopardy by the collapse of a stock speculation scheme which drastically deflated the value of collateral used to back many of the loans.

The patent company in the U.S. of one of the banks involved, Seattle-First National, has already written off $4.8m, as a result of its involvement in the Osaka Shoken Shinyo case. Seattle-First is also deeply involved in the Iwasawa group of companies in Hokkaido, *where stock speculation by the* group's founder put three companies at risk.

The net result is several foreign banks struggling to contain major losses on loans for the first time, a nearly unprecedented state of affairs for *foreign banks in Japan.*

The traditional wisdom among foreign banks has been that lending to Japanese companies was a virtually risk free, if not very profitable, form of business. The second part of this illusion was that if there was any trouble, the foreign banks would somehow be taken care of by the responsible Japanese banks. This is what happened several years back when a large trading company collapsed.

The extent to which these illusions have been shattered became clear last September when Chase Manhattan, the U.S. banking giant, took Tokai Bank, one of the large city banks, to court in order to recover the $18m in loans it had made to the Iwasawa group companies, Hokkaido Television Broadcasting, Kinsei Motor and Sapporo Toyopet.

The Chase suit was launched in both New York District Court and in Tokyo. A separate suit was filed against the founder of the group in Hokkaido. Mr Osamu Iwasawa, whose whereabouts have been unknown since the troubles were spotlighted in the Press.

Chase based its suit on a letter of "guarantee" written by an officer of Tokai Bank early in the year assuring the bank's support for the Iwasawa group. Three of the twelve banks involved in loans to the companies had such letters. Chase lost its temper when Tokai senior executives refused to admit anything more than "moral" responsibility as opposed to a *direct legal* obligation.

The foreign banks assumed, at least, there would be the "Japanese" way of settling the dispute. Tokai apparently misjudged how seriously Chase would take the legality of the letter it held.

After considerable wrangling Tokai and foreign banks agreed to a partial solution on repaying the bad debts, estimated at about Y7.2bn. Agreement was reached on loans to Hokkaido Television and Kinsei Motor.

Chase has withdrawn its suit in Tokyo as a result of the out-of-court settlement. It is continuing its case against Mr Iwasawa, though. Moreover so far as is known at the time of writing part of its New York suit involving the third company, Sapporo Toyopet, a Toyota dealer, will continue until settled.

The banks would not disclose what the terms of the settlement were. Chase, however, admits it did not "celebrate" over the partial settlement.

These affairs have left the banks red-faced. "We have had to take it on the chin," laments one U.S. banker.

The foreign bankers, while licking their wounds, now realise that such affairs are only sideshows to the serious questions now being posed concerning long-term prospects for foreign banks in Japan. Those branch managers not involved in the current squabbles are increasingly preoccupied with questions on the proper role for them to play.

The reason for worries is becoming more apparent. A recent survey of foreign bank profit showed a 50 per cent drop in operating income in the April to June quarter compared with the second quarter of 1980. Rates of return on assets appear to have dropped back to the abysmal 0.21 per cent level experienced on average in the 1979 business sump.

While some banks are doing better than others—a big gap exists between the large and small banks—all the banks are in the same boat as far as increasing competition, narrower spreads on loans, and higher funding costs.

From a historical perspective, the foreign banks have clearly passed out of the fat days experienced for most of the post-war period. The classic formula for success was to act as wholesale provider of dollar loans—so-called impact loans—to cash-hungry, and rapidly growing industries. The peak for this lucrative trade came in the credit crunch of the mid-1970s, when the banks were squeezing a maximum amount of profit out of a modest volume of loans. Since then many banks, whose ranks have swollen to 66, have tried to keep up profits by increasing the volume of their loans. But many are reaching the point where simply expanding traditional loan business makes no sense. The latest profit figures indicate this is happening very *quickly.*

"Japan is clearly not a country where you can earn a satisfactory return on assets," declares the manager of one of the big U.S. banks.

This drive to raise the volume of lending, and increasingly *doing so by extending yen loans* to Japanese companies, is partly responsible for the presence of a large number of foreign banks as lenders to less-than-first-rate companies. For example, foreign banks as a group are the largest lenders to Japanese consumer loan companies — a profitable, though somewhat questionable activity given the low repute of the industry in Japan. Following the failures discussed earlier, the Ministry of Finance suggested foreign banks should examine more closely the quality of their loan portfolios.

The dilemma faced by many of the foreign banks, however, is more complicated than simply tightening up on loan standards. The fact is that foreign banks are as a whole relegated to the fringes of the Japanese banking system.

As a group, they have never held more than 2 to 4 per cent of the market in Japan. Now the pie allotted them is being cut ever smaller by new entries. In the next few months the number of foreigners in town should climb, with more Canadian banks arriving. There will be 70 foreign banks. In addition, there has been a tendency on the part of Japanese corporate borrowers to narrow the focus of borrowing from foreign banks, which should put a squeeze on many of the smaller U.S. banks.

Last year the foreign banks were denied the last vestiges of a one-time monopoly on foreign currency loans. Japanese banks can now compete freely, and with great success, *in impact loans under a new* liberalised foreign exchange law.

To a large extent the foreign banks are simply caught up in the first waves of what seems to be a major transformation of the entire financial system. *What is happening in Japan is* likely to mirror the radical changes seen in U.S. banking in recent years. Unwary foreign banks will have to be nimble to avoid falling through the inevitable cracks opening up as the system slowly changes.

The Ministry of Finance will be only marginally helpful to foreigners wishing to plot a new course. The MoF shows no signs of allowing a foreign bank to acquire a Japanese bank, thus assuring a Yen asset base. Though officials appear amenable to further easing certain means of improving yen funding, such as more flexible CD terms and a loosening or lifting of the ceiling on swaps—dollars brought into Japan to fund yen operations.

The other potential being eyed hungrily by the foreign banks—creation of an offshore banking centre and a truly international financial market in Tokyo—is still opposed by the Ministry of Finance and Bank of Japan.

At best such a market would be allowed only after carefully watching the experience with the new offshore market in New York. In any case, the soonest it could be put in place would be two or three years after MoF decided to go ahead.

Some of the medium size foreign banks are content to continue conservatively increasing their lending business, which they find profitable enough. One British bank has doubled its lending in the past year or so. Its increase in profits has been a more modest 15 per cent a year.

Some foreign banks, most strikingly Citibank, are taking advantage of a loosening of MoF restrictions to open new branch offices in other parts of Japan to attract more business.

Other banks see themselves as evolving into "boutique" banks, offering specialised services such as international funds management and information on overseas markets. The foreign banks in general still have an edge in international expertise over the Japanese banks, though the gap is obviously going to narrow at some point.

A third alternative, and one chosen by a fairly large number of both U.S. and European banks, is to expand into other non-bank "areas of business. Over the past few years, led by the big U.S. banks, a number of consumer finance, leasing, factoring and credit card ventures have been launched.

But a definite chill has crept over the consumer loan ventures. Faced with poor market response, Household Finance, the U.S. finance giant, pulled up stakes in August. And Bank-related ventures with one possible exception appear to be finding the local market hard to crack.

The most striking exception to worries found in some quarters is perhaps Citibank, considered the most powerful among the foreign banks. It also appears to be the most aggressive.

Citibank does in fact not like to be thought of as a foreign bank, being rather proud of its ranking as the 45th largest bank in the country. It is reasonably happy with the degree of "national" treatment now accorded by the authorities.

By the end of the year Citibank will have six branches, the largest number among the foreign banks. Citicorp, the parent, is involved in two finance ventures, two leasing companies, a consulting company, and a yen travellers cheque venture.

Citibank's real strength is in *its treasury operation.* Four years ago the bank had four people in foreign exchange and money market operations in Tokyo. There are nearly 40 now, a much bigger total than any of the other foreign banks, and a *clear rival to all but the largest* of the Japanese city banks. It now claims about 8 per cent of all the foreign exchange turnover in the growing Tokyo market. This compares to about 15 per cent held by the Bank of Tokyo, the foreign exchange specialist.

Moreover, Citibank has already installed an on-line computer link with its branches in the rest of Asia. Only one or two of the Japanese banks are believed to have such capability.

Citibank can probably afford to be an exception to the general malaise affecting other banks in town, especially those stuck with bad loans and shrinking profits. Citibank is apparently gambling that Tokyo will become a financial market rivalling New York and London in importance.

Other bankers may share the vision, which partially explains why new foreign banks trek to Japan. But they are learning that things may not be so easy in future.

Long-term account in deficit as non-resident investors pull out

THE HONEYMOON between the Japanese stock market and non-resident investors may not be over, but the relationship has recently been showing signs of strain. The foreigners who bought Japanese equities so avidly last year are now casting a cold eye over their holdings.

The 1980 buying spree was an unexpected boon to Japan's economy. The inflow of long-term capital helped to offset a yawning deficit on the current account caused by the sharp rise in oil prices. It also propped up the yen at a time when short-term Japanese interest rates were looking unattractive in relation to their U.S. counterparts.

Foreign investors had been cautious about Japanese equities throughout the 1970s. The country's great vulnerability to movements in the price of oil and other commodities, coupled with a very low income yield on the stock market, had been enough to keep non-residents away.

By last year, however, the mood was changing. Japan had twice proved its ability to adjust to steep oil price increases, the yen was seen by many as undervalued against the dollar, and the stock market appeared to offer a range of both cyclical and secular growth stocks unmatched in quality elsewhere. At the same time Japanese securities companies were starting to market their goods much more effectively.

Non-residents had been net sellers in the market since 1976 but last year they returned with a vengeance, making net purchases of shares worth Y845bn. Almost half of that figure was accounted for in August and September alone.

The heaviest buying emanated from the Gulf, and from Kuwait in particular. Opec countries were looking for

Capital Inflows

JOHN MAKINSON

long-term homes for their rising oil surpluses. Income was a secondary consideration and, particularly after the strengthening of the yen's position in the Special Drawing Right, there was a strong argument for diversifying into yen-based assets.

British investors, basking in new found freedom from exchange controls, were quick to follow and continued to buy heavily early this year. Net purchases by foreigners were still running at an average of Y100bn per month in the first four months of this year and the level of gross buying was actually higher than in 1980.

But then the momentum slackened. Softer oil prices dampened the enthusiasm of the Opec investors and Europeans were unwilling to commit a greater portion of their portfolios to Tokyo. They were, in other words, fairly fully invested. As persistently high U.S. interest rates kept up the cost of money in the world's principal stock markets, investors were tempted to realise their gains.

Last month foreigners sold stocks worth Y346.5bn and bought only Y187.8bn, leaving them net sellers by a record Y158.7bn. It was the third consecutive month in which non-residents had been selling more than they bought.

But there is still some confidence in Tokyo that the foreigners will return to the market before long. Mr Masahiro Dozen, a general manager at Daiwa Securities, points out that non-resident holdings amounted to Y6,200bn out of a market capitalisation of Y85,000bn at their end-June peak. Tokyo could therefore absorb a further wave of foreign buying without difficulty, even allowing for the extensive cross-holdings on the Japanese market which effectively limit the supply of free shares.

Mr Dozen also argues that the figures on net transactions do not give a complete picture of foreign activity, since Japanese companies stepped up their overseas fund-raising over the summer and syphoned off into convertible debt issues money which might otherwise have been allocated to Tokyo.

The Japanese securities houses believe that the confidence of non-residents in the long-term growth potential of the Japanese economy has not been shaken. They point out that real Gross Domestic Product should grow at more than 4 per cent this year and growth of 5 per cent or more is on the cards from the middle of next year onwards.

But there will almost certainly be a shift in the buying pattern. Rumours are constantly doing the rounds in Tokyo about the intentions of the Saudi Arabian Monetary Agency, which has been an active buyers of Japanese bonds but has yet to make its presence felt in the equity market. But the securities houses are not counting on the Saudis, or other Opec investors, for the next buying impetus.

The present target of their marketing drive is the U.S. pension fund system, which is starting to invest much more heavily overseas. All the main securities companies have now established fund management operations designed to attract institutional money from abroad, but so far progress has been slow.

Mr Masahi Kaneko, chief investment officer of one such investment advisory company, Nikko International Capital Management (NICM), says: "I believe a second wave of foreign investment will probably come some time around the end of the year. The emphasis is likely to be on U.S. pension funds seeking regional management."

NICM itself has funds under management of around $450m, of which $250m is vested in the Japan Fund, a U.S. operation. The Japanese companies are making inroads on the international portfolio management scene, but they are still some way behind British merchant banks, several of which have long experience of Far East markets.

The securities companies are also trying to woo Japanese investors into overseas markets. Progress is slow. Strict limits are imposed on the investment portfolios of pension funds and many investors have harsh memories of the mid-1970s when the appreciation of the yen wiped out gains on foreign markets.

Mr Kinya Tsubaki, managing director of Nomura Investment Trust Management, Japan's largest investment trust organisation, says that Japanese institutional investors who put money abroad will switch it back very quickly if currencies begin to move the wrong way. They are attracted principally to high-yielding foreign bonds and have in the past couple of years been significant buyers of British gilts and U.S. utility bonds. Mr Tsubaki says there is also some interest in equity sectors, like raw materials or aerospace, which are under-represented in Japan. He believes, however, that private investors must still overcome a psychological barrier to foreign currency investment.

Most recently the securities companies have decided that if they cannot bring Mohammed to the mountain, the mountain must go to Mohammed. The Japanese Ministry of Finance earlier this month permitted Nomura to establish a dollar-denominated fund based primarily on short-term U.S. Treasury bills, which will be marketed in Japan. The idea could later be extended to commercial paper or certificates of deposit.

The considerable relaxation in Japanese foreign exchange regulation implemented at the end of last year has given both individuals and institutions considerably more freedom to invest abroad. But the opportunity has not yet been seized in earnest.

The Japanese authorities may be relieved that the response has so far been slow. They are gradually relaxing the rules on capital exports by Japanese banks and, with foreigners now selling Japanese securities, there is some danger of a large deficit on the long-term capital account.

As it is, the account was showing a deficit of $4.1bn in the first eight months of this year, compared with a surplus of $2.5bn in the corresponding period of 1980. The principal factor in the swing was a steep decline in the surplus on portfolio investment from $6.3bn to $0.9bn. With the Tokyo stock market in its current form, that situation is unlikely to be improving.

Significant loosening of controls

NOT EVEN the most optimistic free-marketeer would expect Japan to enjoy complete freedom of capital movements within the foreseeable future. The international lending of Japanese banks will remain heavily circumscribed by Ministry of Finance guidelines for as long as there is any danger of a large shortfall in the overall balance of payments. Since Japan remains very dependent on imported raw materials, particularly oil, that danger is unlikely to disappear.

Furthermore, the authorities are not keen to open up the Tokyo capital markets to free competition because of the Government's heavy dependence of cheap debt financing. A completely free market would leave it paying substantially more for its money.

Over the past year, however, the authorities have significantly loosened their control over capital outflows. The principal reason for the relaxation is a very sharp improvement in Japan's current account balance of payments. The trade balance was thrown into heavy deficit following the 1979 oil crisis but, backed by a remarkable export performance, has quickly bounced back into surplus.

The Government initially forecast a $6bn deficit on the current account for the fiscal year to March 1982 but officials are now expecting that the account may show a surplus of $10bn. This reversal has allowed the Ministry of Finance to permit some deterioration in the country's long-term capital account, which was boosted up to the middle of this year by portfolio investment from overseas.

At the same time domestic loan demand — particularly among smaller Japanese corporations—is fairly weak, so pressure to lend abroad has intensified. Finally, Opec countries have been moving an increasing portion of their surpluses both towards Japanese banks and into the yen. This has itself created liquidity within the Japanese banking system.

Underlying these circumstantial reasons for permitting greater freedom of capital flows is a tentative belief that the yen should be treated more as an international reserve currency and that Japanese banks should be allowed to compete on a roughly equal basis with their American and European counterparts.

The revision of Japan's foreign exchange law at the end of last year was a significant move in that direction, allowing corporations to borrow more freely from overseas and individuals to hold foreign currency deposits. The regulations remain hedged around with restrictions and emergency powers, however.

The impetus for allowing the yen a greater international role has come in part from the streamlining of the Special Drawing Right, in which the yen component has risen to 13 per cent. Even at this level, however, it understates Japan's share in the combined Gross National Product of major industrialised countries.

The Ministry of Finance imposed severe restrictions on foreign lending by Japanese banks during the autumn of 1979, in the wake of the second oil price shock. But the regulations were relaxed about a year ago and the process of liberalisation has continued at a leisurely pace since then.

The banks are now free to arrange short-term transactions, predominantly for trade finance, through foreign branches; the guidelines on long-term credit have also loosened. Until recently 60 per cent of deposits used to match a syndicated loan had to be of more than one year's maturity. The proportion has since been dropped to 40 per cent. At the

Capital Outflows

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same time the banks must ensure that 10 per cent of long-term loans are financed with deposits of over three years. This change has given the banks more freedom to participate in the syndicated Eurocredit market.

The Ministry of Finance believes that not all banks abide by the spirit of the guidelines. Some, for example, finance themselves through certificates of deposit bearing a maturity just over that needed for the matching requirement.

The guidelines can also be used by the banks as a screen to hide behind. They can cite the Ministry of Finance limits as a pretext for not participating in a loan which they consider uneconomical and so avoid upsetting the client.

The banks, however, still complain that it is difficult for them to compete on even terms with the foreign competition when they are obliged to fund themselves through long-term borrowings. The Ministry of Finance argues that, as the banks do not have either the long-term deposit structure at home or natural access to dollar funds, some controls are necessary.

As a senior official at the Ministry puts it: "I would like to promote the outflow of long-term capital but the problem is the availability of suitable funds."

The Ministry has also relaxed the guidelines covering the participation of Japanese banks in any one syndicated loan. The authorities had until recently prevented Japanese banks from taking more than 20 per cent in any Eurodollar syndicated loan. This rule was principally designed to prevent the so-called "kamikaze" loans in which Japanese banks would put together a credit on uneconomic terms in order to establish a foothold in the international markets. The Ministry now believes, however, that the banks are behaving more responsibly, and has raised the ceiling to 50 per cent.

The Ministry also tries to encourage banking prudence through the imposition of country limits. No bank is permitted to commit more than 20 per cent of its capital base to a single borrower. An exception is made for the Bank of Tokyo, which only operates internationally and where the limit is 40 per cent.

This has meant that some banks have already run up against ceilings for several heavy borrowers such as Mexico and Brazil. But international commercial lending is still on the increase.

The volume of yen syndicated loans will rise to around Y350bn in the half year from September 1981 to April of next year from Y250bn in the previous half year. At the same time foreign currency lending should increase to about $8bn from $6bn.

Limits are still imposed on the clientele for Euro-yen syndicated loans. Only international institutions, trade-related loans and credits linked to natural resource projects are eligible for Euro-yen funds. The official explanation for preventing foreign countries from seeking yen funds is that the demand would be too great.

But other factors are at work. The Ministry of Finance would not like to be in the position of making even an informal judgment on the creditworthiness of an individual sovereign borrower through its banking guideliness. And the Government would prefer the banks not to lend at commercial rates to foreign countries when its own demand for finance, on preferential terms, is so great. A complete relaxation in Euro-yen transactions would effectively force it to pay market rates for its money.

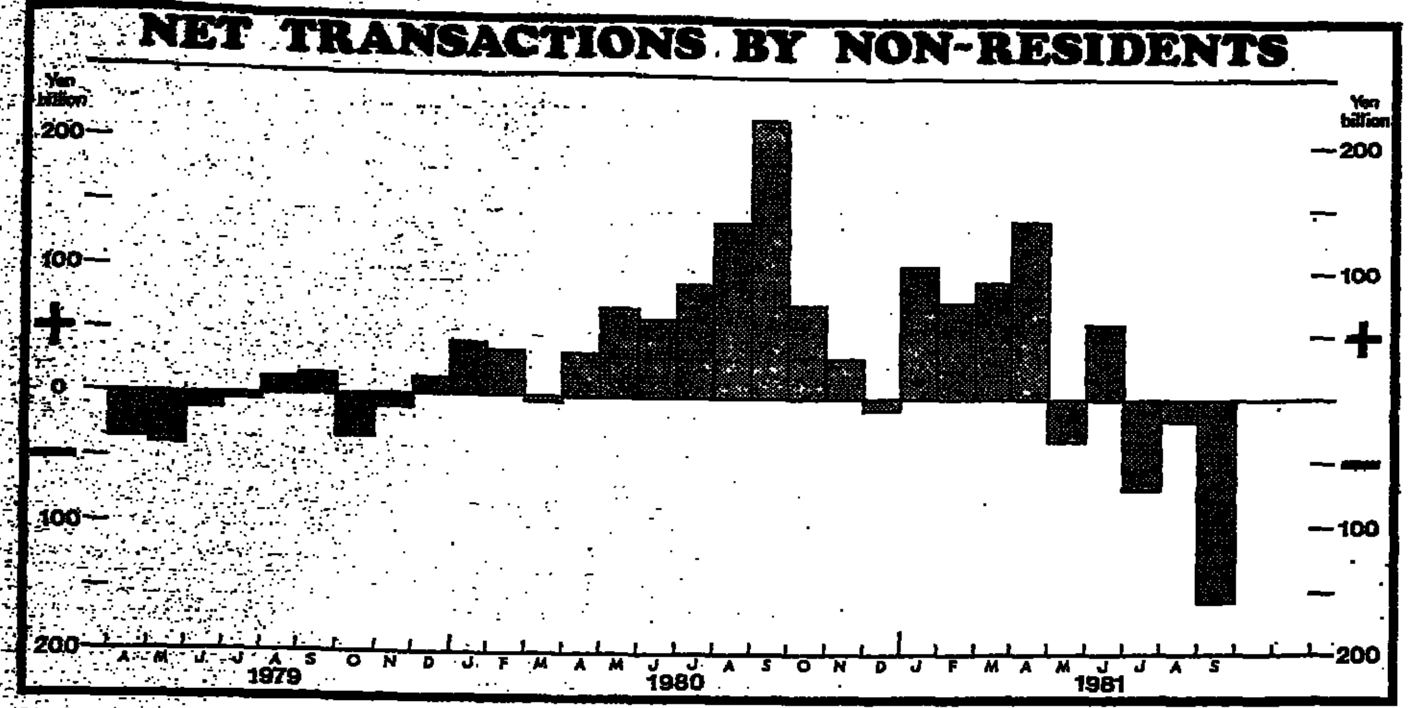
Similar criteria apply to the samurai bond market, through which foreigners raise long-term yen finance at fixed interest rates. The volume of issues will increase by about Y50bn in the current half-year from around Y350bn in the previous six months. As Japanese corporations step up their own foreign borrowing, particularly in the dollar-convertible Eurobond market, the Ministry is under pressure to allow foreigners reciprocal access to yen bonds.

But progress is slow. One particular problem is that foreign companies have until now needed collateral in Japan for yen bond issues. This has in most cases not been possible. An exception has recently been made for Dow Chemical, however, and others will probably follow. Another obstacle is the very demanding reporting requirements for foreign borrowers, but these too are under review.

Essentially, the Japanese authorities are concerned to limit the foreign dollar lending of Japanese banks because their deposits are denominated overwhelmingly in yen and the ministry considers that it would be imprudent for the banks to fund themselves too extensively on the Eurodollar deposit market.

At the same time the Government is trying to control the growth of the yen as an international reserve currency and is not ready to allow the banks complete freedom to export yen funds. "Controlled internationalisation is the goal," says a senior official at the Bank of Japan. "We do not want to encourage the process of yen diversification but to follow a natural movement."

He also accepts, however, that the process of liberalisation must continue. "The die," he says, "is now cast."



Market shake-out highlights foreign influence

LAST MONTH'S shake-out in the world's stock markets left Tokyo looking bruised and perplexed. After all, the Japanese economy had picked itself up from the oil price shock of 1979 with remarkable speed and efficiency. The balance of payments was moving once again into embarrassing surplus, inflation had dropped to under 5 per cent and securities companies were forecasting very healthy profits increases, particularly for cyclical companies, in the half year to March, 1982. The fundamental outlook for the stock market was probably sounder than in any other major economy.

In the middle of August the mood changed. The Nikkei Dow Average peaked on August 17 at 8,019, coinciding with the high point of the FT 30-share Index in London, and from then on it was downhill all the way. The Dow slid 6.4 per cent in the following month and on September 28 it crashed. Around 4 per cent was wiped off the value of the world's second biggest stock market in a single day.

The market had recovered all the day's losses by the following evening, thanks partly to a loosening of margin requirements for share purchases, but confidence had been badly dented. Under the pressure of high short interest rates in the U.S., the market had clearly lost sight of fundamentals.

To some degree the equity market was suffering the consequences of the heavy foreign buying which had taken the Dow over 7,000 in 1980. The buying kept up early this year but when the momentum slackened and stock markets around the world began to look very fragile, domestic investors became nervous about the intentions of non-residents.

At the same time Japanese investment trusts were faced with a high level of net redemptions by individuals chasing liquidity and were obliged to sell. So with the market in a technically vulnerable position, local investors—particularly those who had bought equities on margin—intensified the selling pressure in the expectation that non-residents might begin to dump large blocks of shares on the market.

The stocks which had performed best during the overseas buying spree, mostly blue chip electric and other technology-related shares, were the biggest victims. Sony's share price shed 13 per cent in one day.

The foreigners themselves were reported to be selling shares, but not in huge quantities. The volume of net purchases by non-residents had tailed off after the first quarter, but the overall level of buying had held up well through the summer. Increasingly, non-residents were taking profits on shares which had risen strongly in the previous year and were reinvesting the proceeds in more cyclical companies, such as steel and heavy engineering, which would stand to benefit from the long-awaited upturn in domestic demand. The cyclical stocks were less highly priced, however, and foreigners were often left with cash balances which were then exported.

The increasing participation of non-residents in the Tokyo market has put pressure on the Tokyo Stock Exchange to open its doors to foreigners. The Japanese securities companies are rapidly developing international operations and Nomura Securities, the largest of all, recently gained a seat on the New York Stock Exchange. Yet no foreign company has yet obtained membership of a Japanese stock exchange.

Securities

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Mr Hiroshi Tanimura, president of the Tokyo Stock Exchange, says that Japanese securities law would permit a foreign company to become a member of a Japanese stock exchange if similar privileges were granted to a Japanese securities company in the home country of the foreign company.

But, Mr Tanimura adds, there are constitutional obstacles to the admission of foreigners and the securities industry wants first to carry out a reorganisation of domestic membership, which at present is spread among eight exchanges.

This point is borne out by Mr Kiichiro Kitaura, chairman of the Securities Dealers Association of Japan. He observes that while the Osaka Stock Exchange currently has eight vacancies, the Tokyo exchange has a long waiting list. Mr Kitaura believes that foreigners should take their place in the queue behind domestic applicants.

Mr Setsuya Tabuchi, president of Nomura Securities, says that foreign firms should be allowed membership. But it is unlikely that this will be achieved in the near future. Mr Tanimura accepts that "we should not continue any discrimination against foreigners for much longer" but at the same time wonders whether foreign companies would feel it worthwhile to become members, given the very high entry fee.

Several foreign securities firms now have branch offices in Tokyo but it is most unlikely that they will ever break the grip on the local market exercised by the "Big Four" Japanese companies—Nomura, Nikko, Daiwa and Yamaichi.

Not surprisingly, both the stock exchanges and the securities industry welcome the interest now being shown by foreigners in their market. Mr Tanimura says he has no concern that foreigners will attempt to take control of Japanese companies. The discreet but powerful influence of the Ministry of Finance, coupled with the extreme conservatism of domestic investors, would in any case almost exclude that possibility.

But maintaining the interest of non-residents in the market will not be plain sailing. Many investors are deterred by the very low income base of the Tokyo market — yields average around 2 per cent — and the frequently poor liquidity. On top of that, reporting requirements are not rigorous by Western standards and the tight control over the market exercised by a few securities companies gives rise to some suspicion.

The low yields have already contributed to a sharp fall in the holdings of private investors in the stock market and Mr Tanimura sees as his first priority to reverse this trend. "It is very important that individuals have a direct link with private enterprise," he says.

The direct holdings of private investors now represent around 29 per cent of Tokyo's market capitalisation, compared with a peak of around 60 per cent in 1950. The number of shares on the Tokyo market roughly doubled between 1970 and 1980, compared with a quintupling in personal financial assets.

As business corporations increased their mutual holdings, rebuilding the links which had been dismantled after World War II, private investors were slowly squeezed out of the market and placed their burgeoning financial assets elsewhere.

Mr Tanimura would like to see an improvement in the current system of dividend taxation, moving towards the imputation of tax credit arrangements common in several Western countries. But he also suggests that the overall level of dividends should be increased. At present, Japanese companies pay dividends based on the nominal, rather than market, value of their equity. The sharp rise in the value of shares has left dividend yields lagging behind.

The concern with nominal values has also discouraged Japanese companies from raising new equity. It is traditional in Japan for 20 per cent of the difference between the nominal and market value of new shares to be returned to shareholders in the form of a bonus issue on which a maintained dividend is paid.

So even though dividends may appear low, Japanese companies often maintain that the real cost of equity finance is extremely high. Toyota Motor, Japan's largest motor company, raised a record Y98bn through an equity offer earlier this year. The group's finance director, Mr Takashi Toyozumi, says that the cost of servicing the new equity is about 15 per cent per year, noting that he could have raised the same amount through a debt issue costing about 7 per cent a year.

Mr Tanimura is trying to break down the preoccupation with nominal equity values. "There is a tradition in Japan that, when new equity is offered, most of the surplus over the nominal value belongs to the company, not to the shareholders. This is wrong."

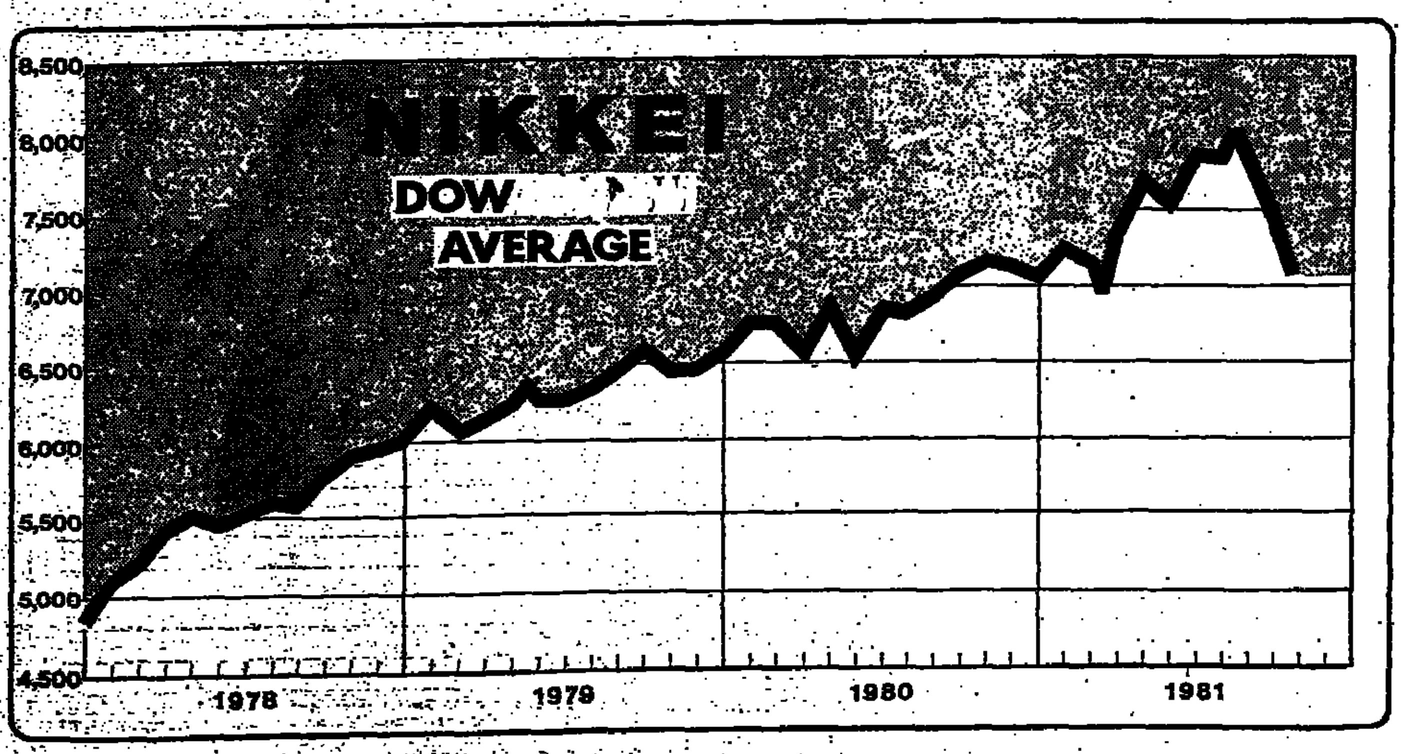
He is encouraging companies to pay higher dividends and legislation has been introduced effectively to abolish nominal share values. Moreover, the exchange is examining changes in the way equity is offered. At present, new shares are offered at around the ruling market price. Mr Tanimura is in favour of the occasional use of the British method of offering shares at a discount to existing holders—to avoid earnings dilution—but he says that issuing companies and the underwriters are resisting the idea.

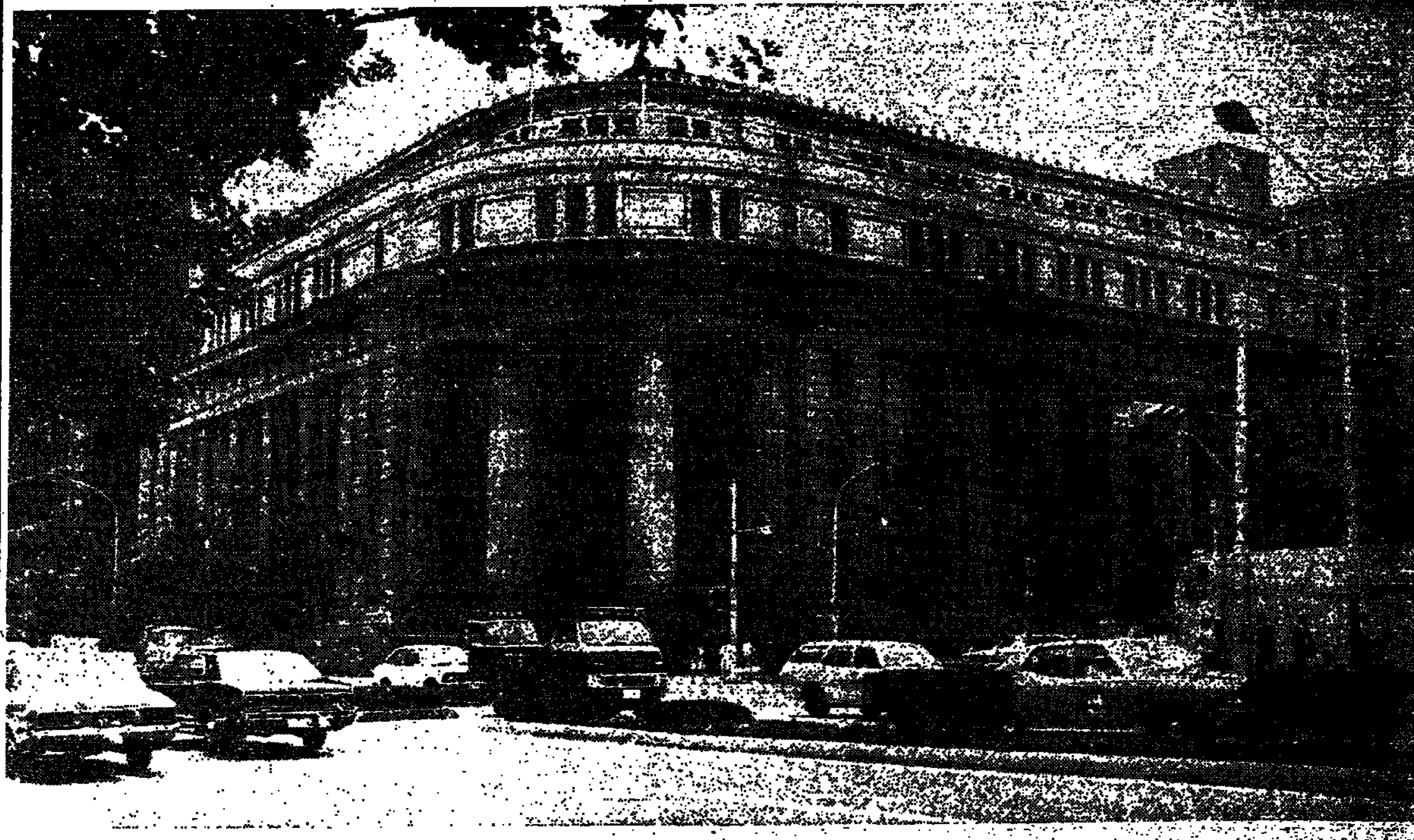
He is also hoping to draw private shareholders back to the market by improving liquidity standards. As a result of a new amendment to the Commercial Code, if company "A" holds more than 25 per cent of the equity of company "B," and company "B" also owns shares in company "A," then company "B" stands to lose the voting rights attached to its holding in company "A."

In addition, stricter rules on large block holdings are under consideration. A company which failed to make a sufficient number of free shares available to the market could technically lose its listing.

The purpose of these regulations is to boost the liquidity of the stock market and to prevent companies from voting their own shares through cross-holdings.

Taken together with recent improvements in disclosure by Japanese companies (the presentation of consolidated accounts, for example, is becoming more common), these measures will probably have some success in enticing private shareholders back to the market and reassuring foreign investors. The sharp increase in equity offerings by Japanese companies this year is at least a hopeful sign.





The Tokyo headquarters of Dai-Ichi Kangyo Bank, one of the largest of the city banks

Problems of declining profitability loom large on the home front

Domestic Banks

CHARLES SMITH

JAPANESE BANKERS are fond of saying that Japan came through the 1973 and 1979 oil crises with flying colours at least partly because of the "sacrifice of bank profits." They seem to have a point—though not, of course, in the sense that profits have been sacrificed altogether.

The 13 "city banks" that account for 55 per cent of the funds of the domestic banking system earned Y238bn of current profits in fiscal year 1980 (ending March 1981) but were still 16.9 per cent worse off than a year earlier as a result of a deteriorating interest rate margins and rising operating costs.

For the banking system as a whole (including local banks, trust banks and long-term credit banks) 1980 was about 10 per cent less profitable than the three-year period immediately before and after the first oil crisis (1972 to 1974). This means, in the view of many bankers, that the industry has faced a structural decline in profitability since the early 1970s. A continuation of the trend could obviously lead to serious problems, although it would certainly not be true to say that Japan's domestic banking system faces anything that could be described as a "crisis."

The deterioration in the domestic business conditions surrounding the banks can be traced to three main elements, not all of which are operating quite as forcefully today as was the case in 1979 and 1980.

The first and most fundamental cause of change would seem to have been a decline in demand for funds from the banks' traditional main customers — big Japanese manufacturing companies. Commercial banks provided the bulk of the funds that financed the spectacular increases in manufacturing capacity that occurred in Japan between the mid-1950s and the first oil crisis. They did so at rates that were kept artificially low by a rigid system of Government controls. But at least the banks were operating in a seller's market where demand for funds could be counted on to grow and where volume could be maximised to compensate for a ceiling on margins.

The apparently limitless increase in Japanese industry's demand for funds that had prevailed before 1973 began to look depressingly limited after the first oil crisis as big companies cut back on their investment plans and attempted to reduce their dependence on borrowed funds. Japanese banks were able to compensate to some extent for the fading of corporate loan demand by developing the hitherto neglected consumer loan sector.

But consumer loans are "labour-intensive" and the banks found themselves faced with social pressures not to maximise the rates on housing finance, with the result that lending to private individuals was generally regarded as a poor substitute for lending to large corporate borrowers. At precisely the time that the loan market was turning soft the banks also found themselves having to pay significantly higher rates to attract deposits. During Japan's period of ultra-rapid economic growth from the mid-1950s to the early 1970s deposit rates fluctuated within the fairly narrow range of 5 to 5.5 per cent—a level which reflected the willingness of ordinary savers to deposit their spare cash with banks and their relative lack of sophistication about other possible outlets for their savings. In the post-oil crisis era the typical range of deposit rates has been between 6 and 7 per cent, although rates as high as 8 per cent were paid during the tight money period immediately following the first oil crisis.

As a result of the shift in deposit rates the "spread" between the rates at which the banks accept money and the rate at which they lend it out again has shrunk drastically. This process culminated in the second half of fiscal year 1980 with the appearance of a negative "overall fund spread" of 0.18 per cent for the 13 city banks. The negative margin reflected unfavourable cyclical conditions as well as "structural" changes but nevertheless served to underscore the dramatic deterioration in the city bank's earning power that had occurred since the first oil crisis.

The deposit and loan rates of the city banks are set by law. (To be precise, the Finance Ministry issues "guidance" on the maximum interest rate levels at which the banks may accept deposits.) Because of this it would appear theoretically possible for the authorities to have preserved the bank's fund margins by setting deposits interest rates at higher levels than those which were in fact adopted. The Finance Ministry's legal right to set rates, however, does not free it from the need to follow market forces, which were what really forced up deposit rates in the period after 1973.

These forces could be summarised as (1) the private investor's need to earn more from his savings during a period when real incomes were under pressure and (2) the existence of attractive alternatives to bank deposits in the shape of Post Office savings accounts and various new investment instruments offered by securities companies.

Japanese commercial bankers are apt to comment bitterly on what they claim are the unfair tax advantages offered by Post Office savings accounts.

These derive from the fact that, under the present system, a single individual can hold several accounts provided he takes the trouble to register them at different Post Office branches.

A second major advantage of the Post Office in the battle for deposits has been its ability to offer a long-term fixed rate to the investor whereas commercial bank deposits are short-term. The chance to deposit money for up to ten years at the peak interest rates that prevailed in mid-1980 produced a rush of funds into Post Office savings accounts last year. In 1981 rates have been lowered and the Post Office seems to have lost at least part of its attraction for private savers.

Security companies' investment instruments, which have provided the main source of competition to bank deposits since early 1980, enjoy the advantages of not operating within MoF guidelines on deposit rates and of offering steadily increasing liquidity as the securities companies themselves have become more ingenious.

The so-called Chuki Kokusai (medium-term Government Securities) funds introduced by many securities firms during the summer of 1981 improved on the flexibility of earlier funds by offering the investor instant withdrawal facilities after an initial 30-day period and by abolishing commissions for investment or withdrawal. Since such funds also paid higher interest rates than commercial bank deposits their attractions to investors were self evident.

The city banks have been fighting back against the securities companies (and against the Post Office) by coming out with their own more attractive formulas for depositors. (A case in point is the Kijitsushitei Teiki—a time deposit which is available for up to three years but which can be cancelled without interest penalty if the cancellation is made at one month's notice at least a year after the deposit is made.) Offering more attractive terms to depositors, however, inevitably costs money and thus tends to lower margins, unless ways can be found of achieving compensating savings through automation or other kinds of enhanced productivity.

The third major drag on the City bank's performance in recent years has been their obligation to underwrite a substantial portion of the Government's annual bond issue. This represented a relatively light burden until around 1974 when borrowing accounted for no more than 10 to 12 per cent of the national budget. From the mid-seventies onwards, however, the bond issue started to grow rapidly and the City banks found themselves forced to more than double their purchases.

As they did so they were faced simultaneously with stagnating, and then declining rates, of increase in their deposit inflow and thus with a narrower base on which to finance bond purchases. The ratio between Government bond acquisitions and the increase in deposits for the 13 City banks was 27.2 per cent in 1975 but jumped to 44.2 per cent in 1977 and to a phenomental 114.8 per cent in 1979. Losses on Government bonds caused by a gap between secondary market rates and the rates at which the banks were obliged to buy meanwhile grew from Y45bn in the first half of fiscal 1975 to Y365bn in the second half of fiscal 1979.

The Government bond problem became less acute in 1980 as the issue declined slightly and as the Post Office savings system absorbed an additional quota of bonds to balance an unexpectedly high inflow of private savings. This, together with a possible bottoming-out of the deterioration in fund margins during the second half 1981, should mean that the city banks find themselves in a less stringent financial situation in the near future. City bank profits are thought to have more or less stabilised in the six-month period ending September 30 and could start climbing again in the current business period ending next March 31.

Better results for the city banks in general, and for the bigger city banks in particular, do not mean, however, that industry is starting to shed its problems. Japan's smaller local banks may well find themselves facing greater difficulties at precisely the time when the city banks start to experience better conditions. This is partly because the local banks lend to small and medium-sized institutions, whose demand for funds is currently much slacker than that of big company sector.

Given the continued problems of local banks and the cyclical nature of the recovery being experienced by city banks it is hardly surprising that Japanese bankers are not talking these days as if their industry was out of the wood. Comments by leading bankers on the outlook for the industry tend instead to include adjectives such as "critical" or even "alarming," while some observers go so far as to forecast a major restructuring of the industry within the next few years. The probable need for restructuring derives from the fact that in the post-oil crisis era the stronger Japanese banks (even within the elite group of 13 city banks) have tended to grow stronger while the weaker have grown weaker. Sooner or later, it is felt, the strong may have to come to the rescue of the weak.

JAPANESE BANKING XI

Clearer strategy accompanies return to world markets

AFTER A period in which official guidelines obliged them to keep a low profile, Japanese banks have returned to the international markets in style. But by comparison with the mid-1970s when banks appeared at times highly undiscriminating about the type of business taken on, the new strategy appears to have more direction.

This may be partly because the Ministry of Finance administered some fairly sharp raps over the knuckles of those banks which it thought were behaving imprudently. And some banks, particularly smaller institutions new to the international markets, may still be sacrificing profitability in order to establish a presence in the market.

Generally, however, banks are emphasising corporate business at the expense of sovereign loans, are actively seeking more treasury business which yields commission as well as margin, and have a clearer idea of their geographical strengths. At the same time they are moving tentatively into the investment management and securities businesses.

So their international strategy is undoubtedly better thought out than it was a few years ago. The squeeze on spreads in international credit business, coupled with a greater perception of borrower risk, has itself been enough to sharpen the wits.

Sanwa Bank, for example, is placing the emphasis on expansion in the U.S. and South-East Asia. Mr Keigo Tatsumi, a senior managing director of the bank, says Sanwa currently has around 30 per cent of its assets in foreign business and generates between 13 and 15 per cent of its profits abroad. The target is to boost this figure to between 25 per cent and 30 per cent of profits within three years.

South-East Asia is of interest because of the area's very high growth potential and the traditional Japanese links with the region. "People take it for granted that Japanese banks have contacts with Asia," Mr Tatsumi says.

To some degree Japanese banks are being pushed abroad by the stagnant conditions in their domestic market. Like Japanese industrial companies, they are finding that they need to expand internationally to carry on growing, and are following their clients overseas. Mr Tatsumi estimates, for example, that 60 per cent of the bank's Asian business relates to Japanese clients.

Operations Abroad

JOHN MAKINSON

This is also the case at Bank of Tokyo, which operates solely outside Japan. Mr Roy Takata, a director and general manager of the bank, says that BoT is at some disadvantage because it does not have the domestic client base of the city banks. But it seeks to attract business from Japanese companies by offering a comprehensive service. It will, for example, conduct market research on behalf of a company which wants to build a factory abroad, examining the tax implications, the financing options and likely level of government grants. Yet BoT's *quasi-official status and* very extensive branch network also gives it some leverage in dealings with foreign governments, and it is probably more truly international than either the city banks or long-term credit banks.

At Sanwa Mr Tatsumi says that he has actively sought out smaller and medium-sized companies which are just beginning to operate abroad. He calculates that around 1,000 clients of this kind have been attracted in the last five to seven years.

Japanese banks are also slowly trying to establish contacts with foreign clients and their share of straight Euro-dollar lending this year will probably be between $10bn and $12bn, or roughly 10 per cent of the total. There are, however, constraints on growth in this area. As yen denominated banks, they are not so well placed as their U.S. counterparts to undertake, for example, major financing for countries with balance of payments deficits. The Ministry of Finance is not keen for long-term Eurodollar lending to be financed through short-term deposits and constraints are imposed, *particularly for* City banks, on the raising of long-term foreign currency debt finance.

External limits are not the only problem. Japanese bankers admit privately that they are *less innovative than many of* their foreign competitors and feel happier with Japanese clients. The availability of qualified personnel is another constraint. Sanwa says that out of a total staff of 10,000 roughly 1,300 have some experience of overseas business. People, says Mr Tatsumi, are the biggest barrier to growth.

But there is little doubt that the proportion of international business will continue to increase. Mr Yoh Kurosawa, a managing director of Industrial Bank of Japan, points out that the ceiling on real domestic growth is around 3 per cent per year. IBJ's foreign loan book currently represents only about 15 per cent of the total and is *likely to carry on growing,* albeit slowly.

At Sumitomo Bank, the strategic thrust of international operations over the next decade will be towards corporate banking, asset and liability management, and the international securities business.

Like its competitors in Japan and abroad, Sumitomo is conscious of the risks attached to straight syndicated lending and is already close to its limits on lending to areas such as Brazil and Mexico. It is therefore placing the emphasis on corporate finance services, including project finance, leasing and financial advisory work.

Mr Chusuke Takahashi, the bank's deputy president, says that the uncertainty surrounding interest and exchange rates has made it imperative for the bank to devise a more accurate method of matching assets and liabilities internationally. It has therefore established a computerised information system for its treasury, due to be launched in late 1982.

Much the most controversial area of expansion for the banks is *international securities.* They are moving slowly into the area of portfolio management and are seeking to become lead managers in Eurobond issues for Japanese companies.

This diversification runs the risk of obscuring the traditional Japanese demarcation between banks and securities companies. The banks have already wrung some concessions out of the Ministry of Finance. City banks can now be allowed to guarantee and manage the foreign currency bond issues of their subsidiaries abroad and to hold 100 per cent of the equity in subsidiaries engaged in the securities business on foreign capital markets. The Ministry has, however, reserved the right to decide on such matters on a case-by-case basis and the banks do not by any means have complete freedom to operate in the securities business.

The banks complain, with some justice, that the Ministry has failed to take an even-*handed approach towards com*petition between the banking sector and the securities industry. The major securities houses already conduct banking operations in the Far East and Europe. Moreover, they have recently applied to the Bank of England for UK banking licences, a move which has been endorsed by the Ministry.

In public, at least, the banks do not profess great concern about the encroachment of the securities companies on their terrain. The Ministry maintains that the securities houses do not wish to become involved in commercial lending, while the banks have only limited aspirations in the securities field, so the two should continue to be complementary.

Privately, however, bankers are concerned about the possible impact of securities houses on their traditional areas of business. They believe that the Ministry is being too protective towards the securities companies because of their history of liquidity problems.

Times have changed, however, since the mid-1960s when the powerful Yamaichi Securities had to be rescued by the *banks. Nomura Securities is* now the largest financial institution in Japan and has a string of corporate clients which it could use as a base for banking operations abroad. And there is some fear among banks that *greater competition between the* two sectors overseas could be the prelude to a break-down of the traditional demarcation lines within Japan. The example of the U.S. is not an inspiring one. So, while the Japanese banks continue to force the pace overseas, they will be doing so with at least one eye on the securities industry.

The City of London headquarters of Mitsubishi Bank, part of its extensive world network

Revision of banking law brings more specific guidelines

LEGAL changes in Japan tend to take a long time and are usually designed to recognise changes which have already occurred in practice.

Thus the passage this May of a new banking law, the first wholesale revision since 1927, was something of an anti-climax. Full implementation of the law will take place in April 1982, seven years after a study on the need for a change was formally launched.

But like the new liberal foreign exchange law which went into effect in December 1980, the banking law revision does serve as a useful reminder of just what has changed in Japan.

The revision was intended to reflect the dramatic shifts in both the economy and society. For 50 years, the Ministry of Finance managed the monetary system with a fairly simple law, the vagueness of which allowed an effective system of "administrative guidance" to evolve at the Ministry's discretion.

Whereas the old law had 47 articles, the new law has 56 articles, including a specific one defining the status of foreign banks. Under the old law there was no elaboration on foreign banks, and the Ministry was free to interpret.

By contrast the new provisions lay down such things as guidelines for the entry of foreign banks as subsidiary institutions.

An analysis by the Bank of Tokyo points to four major factors behind the revision.

● The first involves changes in the pattern of financial flows as the economy shifted from high growth to stable growth after the first oil crisis. The most significant changes were a decline in corporate demand for funds, and a shift away from dependence on banks' borrowing, coupled with a very large increase in borrowings by the Government.

The personal sector also increased in relative importance as housing and consumer loans rose. Investment patterns changed as higher rates of return were sought by both corporations and individuals. Under these circumstances, the *need for more efficient bank* management became evident.

● Secondly, with the growth of personal banking, there were increasing calls for the banks themselves to play a socially more responsible role.

● The third point is that the banks themselves were increasingly burdened by the absorption of large amounts of government bonds.

● Fourthly, as Japan became more internationalised this *increased the need to review* traditional ways of administration (administrative guidance), and to incorporate such guidance into the law in a clear and simple way.

Some of the major changes are:

In order to allow banks a greater flexibility in adjusting to changes in the economy, the law specifies what incidental lines of banking business are, and mentions that there may be other lines of business. The law specifically talks about securities business to be allowed by the banks.

Perhaps the bitterest debate, and one lost by the banks, during the drafting of the law, came over whether banks would be allowed to sell over the counter the government bonds they are obliged to absorb. Ironically, under the old law the banks were in principle free to do so, but in practice forbidden. The new law gives the Ministry of Finance the power to decide when banks will be allowed to do so. A *special three-man committee* of neutral experts has been established to recommend an appropriate timing.

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The banking law does not change the famous Article 65 of the securities and exchange law which strictly separates banking and securities business inside Japan.

The law specifies limits on lending to a single borrower, up until now the subject of administrative guidance. The law says the city banks will be limited to lending 20 per cent of total capital to a single borrower, with a 30 per cent limit for the three long-term credit banks and 40 per cent for the specialised Bank of Tokyo. Foreign bank branches will be subject to a 20 per cent limit on the parent company's capital. There are some exceptions allowed.

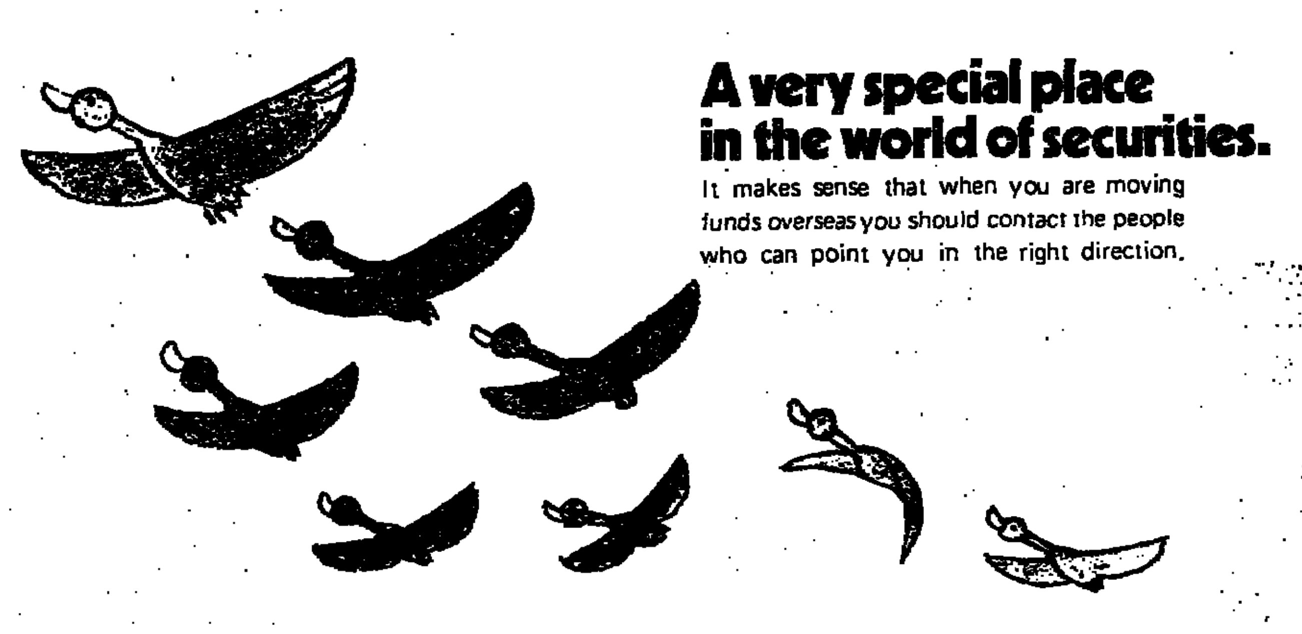
The limits have hurt at least one of the major city banks. Mitsui Bank was unable to comply with the original deadline in bringing down its total loans to its sister company, Mitsui and Company, the trading house. Certain penalties have been applied by the Ministry.

Under the new law banks are required to publish income statements in addition to balance sheets which have traditionally been made public. There is a provision for banks to display such information. In *practice, a number of banks are* already voluntarily disclosing such information.

The law will also pave the way for a five-day banking week, compared with the present five-and-a-half day requirement. Banks will have the option of shifting to a yearly settlement of accounts from the current half year requirement. And there is more flexibility allowed in increasing capital.

The Ministry of Finance has yet to establish all the rules by which it will enforce the new banking law from next April.

One issue to be decided is that of sales in Japan of foreign certificates of deposit and commercial paper. Under a technical revision to the securities law passed at the same time as the banking law, both banks and securities houses will be able to sell foreign CDs and CP to customers in Japan. The industry is drawing up guidelines on how to operate this new market.



Companies show keen appetite for equity capital

JAPANESE CORPORATIONS have this year been raising new equity and debt finance at an unprecedented rate. In the first four months of this year alone common stock and convertible debt were being offered to the market at three times the rate of the previous year. In the last few weeks the momentum has slackened as the weakness of the Tokyo stock market has dampened the enthusiasm of investors both abroad and in Japan. But overall the year should still show a considerable increase.

Nomura Securities, Japan's largest stockbroking firm, expects Japanese companies to raise Y4,570bn of new equity and debt capital in the current fiscal year to March 1982. This represents an increase of almost a half over the 1980-81 figure of Y3,115bn.

The surge is expected to be particularly marked in foreign markets, where Nomura is expecting companies to tap Y1,370bn compared with Y866bn in the previous year.

Japanese companies are not alone in seeking long-term capital. The first half of the year saw both British and American companies setting records for new equity offerings. Corporate treasurers were obviously cashing in on rising equity markets at a time when short-term bank finance was becoming increasingly expensive and cash flow strains were upsetting the appearance of their balance sheets.

These factors clearly played a part in the decisions taken this year by Japanese companies. In particular, the strong interest shown by foreign investors in the Tokyo stock market last year and during much of this year tempted them to raise relatively cheap money abroad. The average dividend yield on the Tokyo market is close to 2 per cent and, in a foreign issue, the company is released from its normal obligation to return a portion of the new cash to shareholders in the form of a dividend-paying bonus issue.

Convertible bond issues have also been extremely attractive in cost of capital terms. Japanese corporations were able to raise convertible debt in almost limitless quantities two months ago. They were paying roughly 5 per cent on dollar convertibles, compared with a rate of close to 17 per cent in the straight sector of the Euro-dollar bond market.

But the cost of finance is not the whole story—nor is the need for it. Toyota Motor's record breaking Y98bn equity offering this year was made against the background of a balance sheet awash with cash reserves and the company believes that, after factoring in the cost of the bonus issue, debt financing would have worked out cheaper.

Capital spending has remained fairly buoyant among large companies but overall investment in plant and equipment, which showed a sharp rise following the oil price shock of 1979, is now fairly static as a percentage of Gross National Product. Moreover, many of the companies which will need to spend most heavily, particularly those in the electrical sector, are already generating enough cash to meet their requirements.

Capital-intensive sectors such as steel are generally over the hump of their capital spending programmes. Nippon Steel, for example, calculates that its net cash requirement over the next years will probably be around $200m per year, which is relatively low by historic standards.

There is no clear pattern to the recent capital raising exercises. Some companies genuinely need the money and others are taking advantage of relatively cheap funding. At the same time there is a perceptible longe-term move among many corporations away from bank financing and towards the capital markets.

This is illustrated by the ratio of short-term debt to total liabilies in the balance sheet of Japanese corporations. The average ratio has been falling consistently over the past five years, bringing debt to equity ratios slightly closer to Anglo-Saxon norms.

This trend, strongly encouraged by Japan's securities companies, is detected by Mr Kiichiro Kitaura, chairman of the Securities Dealers Association of Japan. He says business corporations have been moving increasingly towards the capital markets for about a year but says that the companies which have done so primarily for cost of funds reasons are in a minority.

Mr Kitaura points out that the growth in equity volume lagged considerably behind the overall increase in financial assets and Gross Domestic Product over the past decade. So companies are to some extent merely catching up.

He adds that Japanese companies generally depend more heavily on bank finance during

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a period of high growth. Now that growth rates worldwide have slowed down, Japanese companies are arguing that some of the benefits of previous profits increases should be returned to shareholders. This is a view which has the full support of the Tokyo Stock Exchange, which is actively encouraging the issue of more equity capital—particularly to private shareholders—and the payment of higher dividends.

Some corporations are also seeking to reduce their dependence on the powerful city banks by running down bank loans. Mr Yasuo Hiyauchi, an executive managing director of Hitachi, says that his company is planning substantially to reduce its debt ratios over the next five years by raising money through the capital markets. Equity, convertible debt and warrants will all be considered. As a result, parent company net debt, which stands at around Y100bn at the moment, will be at least halved over the next five years and may be eliminated altogether — despite a considerable cash outflow.

Mr Hiyauchi is determined to bring the debt and equity structure of the company more closely in line with the profile of its sales and profits by encouraging a higher proportion of foreign shareholders and by taking on more foreign-currency borrewings. This target has been eased slightly by relaxations in Japan's foreign exchange law at the end of last year, though there is still a 30 per cent ceiling on foreign ownership of Hitachi.

The strategic aim of encouraging a greater percentage of foreign ownership has underpinned the recent flood of convertible debt issues in the Eurodollar market. But, at least recently, the reception has been mixed. The decline in the Tokyo stock market from mid-August onwards quickly affected sentiment for convertible bonds and, in early September, Toshiba decided to shelve a planned $100m issue. With the Tokyo stock market still in the doldrums, fewer companies are now trying to push equity or convertible debt on to non-resident investors.

Japanese companies may now have a more positive attitude to the raising of equity at home and abroad but it would be unwise to overstate the trend. Some companies, for example, are still wary about offering stock to foreigners.

Toyota Motor's finance director, Mr Takashi Toyozumi, says that a high proportion of foreign ownership can disturb the market for domestic investors. Non-residents may be tempted to sell out for a currency gain and leave the locals stranded. At the same time he feels reluctant to offer stock to foreigners while they are shy of affording his cars free access to their markets.

For some companies such as Nippon Steel emancipation from the banks is little more than a pipe-dream. Steel companies and other capital goods groups are heavily dependent on long-term credit banks for long-term finance and it would be politically disastrous for them to try and sever their ties.

By Western standards Japanese companies still hold a very high proportion of bank horrowings on their balance sheets in relation to equity and bond debt. That position may slowly be changing but it is unlikely to move very far. Japanese companies would mostly rather be beholden to banks, which can take a long term view, than to shareholders concerned about the current year's dividend.

Moving rapidly towards the cashless society

JAPAN IS rapidly moving toward a cashless society and proliferation of small neighbourhood banks. This is largely thanks to the modern computer services provided by the major Japanese banks for their customers—probably the most advanced service in the world.

Japanese banks now offer on-line real time service which provides instant credit balances and not at the end of the day as is often the case in the UK, Europe and America.

Japanese banks also provide cash corners at all of their branches which are equipped with cash dispensers (CD), automatic depositors (AD) or automated teller machines (ATM) which provide both facilities, and updating of their passbooks.

Customers may now go to any of these cash corners to deposit money or obtain cash without waiting for the banks to open. Japanese banks are open weekdays from 9 am to 3 pm and from 9 am to 12 noon on Saturdays. They are closed on Sundays. These cash corners are open from 8.30 am to 6 pm daily except Saturdays, when they are open until 2 pm.

The Japanese can also utilise a cash dispenser system (CDS) that covers six major cities with 250 units located in hotels, supermarkets and departments for emergency cash.

An interbank system makes it also possible for bank customers to withdraw money at any of the six city banks from their own bank accounts. There is a slight charge for this service.

Japanese banks are now considering increasing the number of small neighbourhood banks—on the lines of Britain's networks—which would be manned by 4 to 10 persons and equipped with the latest ATMs and CDs.

Dai-ichi Kangyo Bank (DKB), Japan's largest, has 330 domestic branches and 20 overseas branches and representative offices. It has 800 CDS and 400 ATMs in domestic service but hopes to open up 50 neighbourhood banks within the next two years.

Fuji Bank, the second largest, also has plans to increase the number of its neighbourhood banks within the next few years. Fuji has 230 branches equipped with 440 ATMs and 500 CDs, as well as eight foreign branches, 12 representative offices and 18 foreign subsidiaries.

The main reason why the big city banks are so interested in opening up more neighbourhood banks is to compete with the Japanese postal savings system.

There are more than 22,000 post offices throughout the country which compete for savings with the 8,800 bank branches.

Computer Services

JOHN FUJII

Both systems offer approximately the same interest on time deposits of about 8 per cent for a three-year period, but the post offices are still behind banks in adopting computer banking technology, including the ATMs.

The central computer at DKB is a FACOM 230/75 system. It has had five sets on-line since 1977. DKB has provided an on-line service since 1968.

Fuji has four IBM 3033s and one IBM 370/168. This bank installed its computer service in 1959 and has provided on-line real time service since 1967.

The Fuji integrated computer system covers all functions such as deposits, domestic and foreign exchange, loans and consumer loans. There are two communications lines for each branch office and two sets of computers which cover all branches throughout Japan.

Fuji Bank has a data processing centre which handles the processing of all clerical work for the various branches and the head office. It also provides computer services for outside firms and organisations.

The clearing department handles all checks, bills, securities and coupons and the centralised processing of transferred funds. The centre also has centralised custody and collection of bills while the domestic exchange clearing department manages domestic exchange settlement of accounts for intra — and inter-bank domestic exchange transactions as well as other exchange settlement operations. The cash delivery and other operations are handled by the cash control department.

There is also a telephone service at all city banks and some provincial banks since 1980. This service is called an audio response system (ARS). You can call up the bank and withdraw money but you must be a subscriber to the special service.

Japanese banks do not as yet have computer links with their overseas branches but they expect to connect up their overseas branches with the domestic system eventually. Each of the overseas banks has in-house on-line service.

Internationally, Japanese banks have been members of the SWIFT (Society for Worldwide Interbank Financial Telecommunications) network since 1977. At present 42 Japanese banks and three foreign banks in Tokyo are members.

One service in which Japanese banks lag are the drive-in banks popular in the U.S. A Fuji bank source explained that drive-in banks are not successful in Japan because of the high cost of land but there is a possibility that they may increase in the future. Dai-ichi Kangyo has an experimental facility in Heiwadai, Nerima-ku, a suburb of Tokyo.

Another banking feature is cashless shopping, by which supermarkets and department stores can have their POS (point-of-sale) terminals linked directly to the banks on real time. There is also growing use of credit cards, which are charged directly to the banks.

Again, a Japanese company employee these days receives only a computer print-out in his pay envelope with the salary going directly to his own bank on payday.

All utility bills and rent can be paid out by the bank directly from an account, if so instructed. All these factors contribute to the Japanese cashless society.

As regards 24-hour banking service, a Fuji bank spokesman said this would depend on demand and costs. But he felt there was little need for such a service at present.

A typical interior of a Tokyo bank, indicating the progressive approach to retail banking

The extension of neighbourhood banks also depends on the cost factor. One ATM costs Y9m, or approximately $40,000, while a CD would cost Y6m or $27,000. Total cost of new equipment for a neighbourhood bank would run to Y30m, or $133,000 or more for two ATMs and two CDs.

Dai-ichi Bank uses Fujitsu ATM terminals while Fuji uses Oki ATMs.

The Bank of Tokyo uses FACOM M-200s for its central processing and Fujitsu ATMs. Mitsubishi Bank uses an IBM 3033 and NCR or Fujitsu terminals. Sumitomo Bank uses a NCR computer system and Fujitsu or NCR terminals. Mitsui Bank uses IBM 3033s and Mitsubishi or Toshiba terminals. Sanwa Bank uses a HITAC m-180 and Hitachi or Fujitsu terminals.

Disarmers hit a sensitive nerve

By Ian Davidson

HELPED by some injudicious comments from President Reagan's anti-nuclear protest movements in Europe are touching on an increasingly sensitive nerve. In West Germany the campaign against the deployment of Cruise and Pershing II missiles is putting the SPD-FDP coalition Government under strain and similar stresses are at work in Holland and Belgium. It is too early to predict how far they will get in influencing Government policies but it seems that in terms of popular following they are still on a strongly rising curve.

In Britain the oldest anti-nuclear movement is the Campaign for Nuclear Disarmament, which flourished in the late 1950s and early 1960s, and then sank virtually out of sight after the Cuban missile crisis of 1962 and the Limited Test-Ban Treaty of 1963. Two years ago, CND had only about 3,000 national members and fewer than 100 local groups; today it has more than 30,000 national members and over 1,000 local groups.

The other two main campaigning organisations, European Nuclear Disarmament and World Disarmament Campaign, are much younger, both having been formed in April last year. Neither has individual members as such—in the case of END this is because it works closely with CND and does not want to compete for subscriptions—so it is more difficult to pin down just what they represent in terms of a popular following. But Brigadier Michael Harbottle, the general secretary of WDC, claims that 450 groups in the UK, representing between 30,000 and 100,000 people, are now affiliated.

Between them the three organisations employ a total of 17 full-time staff: 10 at CND, each of whom is paid £6,000 a year, plus three on short contracts; two at END, plus two part-timers; and five at WDC, plus two part-timers.

CND's main income comes from membership subscriptions; national members pay from £2 a year for students up to £6 for employed adults, while local members pay £1.

END has so far got money by fund-raising appeals, which raised about £20,000 this spring in the UK and about $40,000 in the U.S. as a result of a speaking tour by its leading light, the historian E. P. Thompson, as well as by handing round the collection bag at meetings.

World Disarmament Campaign, whose running expenses average £1,200 a week, is supported by the Methodists ("in a very big way," according to Michael Harbottle), the British Council of Churches, Oxfam, Christian Aid, War on Want and a leading charitable trust.

The objective of CND is, as it always has been, the unilateral renunciation by Britain of nuclear weapons. "The British deterrent is not independent," says Mr Kent of CND, "and above all it is not credible." He believes that the arms race is leading to the perception of a first-strike capability by both super-powers, and he supports the proposal of George Kennan, the American diplomat who was all those years ago a leading advocate of "containment," that America and Russia should both immediately reduce their nuclear arsenals by 50 per cent. "If you have massive overkill, the very notion of balance is absurd," he says.

The objectives of END are the same as those of CND, but more so: to promote the removal of nuclear weapons from the whole of Europe, east and west, by any means that may present itself: unilateral, multilateral, partial, whole-hog, with the eventual aim of a treaty banning nuclear weapons throughout the Continent.

Its main methods are to disseminate its views by pamphlets and public meetings, and to foster contacts with like-minded groups in other European countries. "Between October 10, when 250,000 people demonstrated in Bonn, and November 21, when there will be a demonstration in Amsterdam," says Meg Beresford, the organiser of END, "a million people will have taken to the streets. This really is a mass movement."

The objectives of the World Disarmament Campaign are rather different, but as its name suggests they are nothing if not ambitions. On the one hand, it is canvassing nationally, constituency by constituency, door-to-door, with a petition which reads as follows:

"To all governments and to the United Nations General Assembly Special Session on Disarmament, 1982, we the peoples of the world demand:—

1—The abolition of nuclear weapons and all weapons of mass destruction;

Leading lights of the disarmers: Brig Michael Harbottle of the World Disarmament Campaign (left) and Mgr Bruce Kent and Prof E. P. Thompson of CND.

2—The abolition, by agreed stages, of conventional arms, leading to;

3—General and complete disarmament;

4—Transference of military expenditure to end world poverty."

So far there is no final tally on any of the constituencies, but the striking rate, according to Michael Harbottle, ranges from a low of 50 per cent up to 65-75 per cent. "And that," he says, "means millions of signatures when the process is completed next spring."

The timing is important, because in May next year the UN holds its second Special Session on Disarmament. The first Special Session, held in 1978, adopted a Final Document endorsing the principle of general disarmament and set up a new 40-nation Committee on Disarmament whose task would be to prepare a firm programme for the second Special Session.

The 21 neutral and non-aligned members of the Committee have put forward proposals for a four-stage disarmament process, starting with a reduction of at least 20 per cent in the nuclear warheads and strategic delivery systems by the U.S. and the Soviet Union and at least 25 per cent of their conventional armaments and ending with a worldwide agreement on total disarmament.

The five-nation western group in the Committee (Australia, Belgium, Germany, Japan and the UK) has tabled a much more cautious document, but starting with recommendations for a comprehensive test ban as well as significant reductions of, and qualitative limitations on, strategic nuclear arms.

Given that the Reagan administration has yet to formulate its own position on the Strategic Arms Limitation Talks with the Soviet Union, and does not expect to do so before next spring, and given that the nuclear weapons states have no intention of giving the United Nations any kind of handle on such negotiations, it can hardly be said that the prospects for the second Special Session are particularly bright, however many signatures Brigadier Harbottle manages to collect in this country.

Some unilateralists, like Meg Beresford at END, believe that the anti-nuclear movement will have to parallel the three stages of the suffragette movement if it is to achieve anything: a small coterie of idealists, followed by a mass campaign, followed by direct action. By direct action she means industrial action, but while she believes the movement is making a bigger impact on the working class than CND did in the 1960s, she evidently does not foresee anti-nuclear strikes in this country. "They are much more given to that sort of thing on the Continent," she says.

One of the commonest criticisms of CND/END is that no amount of unilateralism in the West will have the slightest influence on nuclear disarmament in the Warsaw Pact. Miss Beresford believes that there may be "quite a lot" of nuclear pacifists in the East German armed forces, and that the churches may be the best vehicle for getting the message across in Eastern Europe; but there are two card-index boxes on her desk which bear cloquent witness to the disequilibrium: one marked Western Europe, is stuffed full of cards with names and addresses, the other, marked Eastern Europe, is almost empty.

Another weakness is that the simplification of unilateralism can encompass almost everybody from fellow-travellers and pacifists, to anti-Americans and anti-Marketeers, right through to those who believe in a strong but conventional Nato defence. Both Bruce Kent and Meg Beresford both concede willingly that not nearly enough work has been done on alternative defence strategies, but put some of their hopes in the Alternative Defence Commission which is working on the subject at the School of Peace Studies at Bradford University.

It is easy to pick holes in the propositions of the nuclear protesters. It is not to easy to maintain that there is no basis for their arguments, or that the world is not becoming, as a result of the arms race and nuclear proliferation, an increasingly dangerous place.

The official view, which would pobably be endorsed by the International Institute for Strategic Studies, is that for the time being the nuclear balance is pretty stable. But there are characteristics in the latest generations of weapons which tend to make the situation less stable: multiple warheads on increasingly accurate missiles evoke the spectre of first-strike capabilities by both superpowers, while the multiplicity of redundant weapons and the multiplication of targetting options under the general doctrine of flexible response evoke the spectre of nuclear war-fighting capability, if not of a war-fighting strategy.

These problems have specific relevance in Britain. A year ago the Government decided to replace the Polaris submarine missile system with the more modern Trident system from the U.S. Now that the U.S. has decided to abandon the Trident C4 missile in favour of the larger, more powerful, longer-range, more accurate D5 missile, it appears that Britain has little option but to follow suit.

It is impossible to believe that the question can be settled as simply as that. In the first place, Trident with the D5 represents a significant addition to the arms race. The American version will have eight warheads compared with three for Polaris, and even if there are fewer on the missiles for Britain, they will have a silo-busting accuracy which is wholly out of keeping with any conceivable British requirement.

Mr John Nott, the Defence Secretary, has suggested that the upgraded Trident will be "cheaper in the long run," but the question is, cheaper than what, and at the expense of what else? There may be ways of cutting costs—for example, by only putting 12 missiles in the 16 tubes—but how could that be reconciled with any kind of arms control policy? Moreover, there must be people in the Ministry of Defence, responsible for Britain's conventional forces, who have reason to fear that Trident will grow into a very big cuckoo in the nest.

And how can the British force be independent when its targetting will depend on the U.S. Navstar navigational system? If a decision really has been taken to buy Trident II rather than Trident I, it seems quite remarkably casual.

Who should own British oil

By Samuel Brittan

THERE IS a danger that BNOC will become another shuttlecock of adversary politics, tossed to and fro from state to private ownership according to the political colour of the Government in power. Does that mean that the Government should respond to Michael Foot's renationalisation threat by abandoning its plans to take out of state ownership BNOC or the British Gas Corporation's oil business? Such a response would make nationalisation a one-way irreversible process and it would also be most unwise to surrender to threats.

On the other hand simply to proceed with conventional de-nationalisation by means of a share offer or a market placing would display an ostrich-like blindness to reality. There is a third way, which would be superior to both. This would be not to sell BNOC and British Gas interests to the institutions or to the small minority of the public who apply for new issues, but to hand over the shares to every adult in the country gratis on a pro-rata basis. Such a distribution would be both true public ownership and also the widest possible privatisation.

The proposal may have a familiar ring. Some time ago, Barry Riley and I put forward a plan for distributing to all citizens the Government's receipts from North Sea oil revenues, and making the right to a stake transferable, and thus realisable on the Stock Market. We were careful to distinguish between the distribution of Government revenues and the disposal of securities in BNOC, which is an oil producer. (The latest version is A People's Stake in North Sea Oil, Unservile State Paper no. 26, 1980, Liberal Party Publication Dept., 1980.)

Unfortunately the chance of acting on our original proposals is slipping away. North Sea oil revenues have become merged with ordinary tax receipts and the precarious state of the Public Sector Borrowing Requirement is rapidly making any hiving off more difficult. A general distribution without charge of BNOC and allied stock would be a much smaller and different substitute. The original People's Stake would in our last calculation have been worth £4,000 per family. But even if the new stake is worth only £100 it would still be much better than nothing.

Even if many people sold their BNOC shares, enough would remain in the original hands to maintain widespread popular ownership. It would thus be impossible for a Labour Government to offer less than a market price for the stock and renationalisation of any kind would be very unpopular. But spiking Michael Foot's guns would be merely an incidental advantage. The main point is that individual citizens would have a stake, however small, in North Sea oil; and a step would be taken towards a more widespread and egalitarian distribution of equity ownership.

The only counter-argument is that the Government would be losing a chance to knock say £1bn off the PSBR as an election was approaching. Any such reduction would be cosmetic. As the Energy Secretary, Mr Nigel Lawson, is well aware from his Treasury days, the disposal of assets does not reduce the Budget deficit but is simply a way of financing it. Selling off capital and treating it as revenue for tax reduction is an unsound practice which City analysts would see through quickly. If BNOC stock were distributed the "Government" would merely lose future dividend income, which would be transferred directly to British citizens.

Popular participation ought surely to be the Social Democrat riposte too. The Social Democrats ought to favour widening the options from the simple alternatives of old-fashioned State ownership and old-fashioned private ownership to a much wider range including workers' co-ops, management buy-outs and the disposal without charge of existing State concerns to the mass of the population.

A pilot operation with BNOC could point the way to the future treatment of many other State industries. De-nationalisation with an egalitarian tinge should have instinctive appeal to any party which aspires to the radical, as distinct from the unthinking centre. But if the Cabinet were brighter it would take the initiative itself. Mr Lawson used to say that the "People's Stake" ought to be tried first on a small-scale experimental basis. Now is his chance to do so, even if he has to fight the Treasury on the issue.

Letters to the Editor

The benefits of membership of the EEC

From Mr Ernest Wistrich

Sir,—I am glad to respond to Mr. White's request (October 21) to detail just six benefits of Britain's membership of the European Community.

The first is clearly our trade record with the Community, which has grown faster than with any other part of the world. We now do 60 per cent of our trade with the Community and its European associates. Our visible trade is in surplus. Some 13 per cent of our sales cover oil, representing a massive capital investment and thousands of jobs. It would be no more logical to exclude oil exports than to exclude coal exports from these statistics.

Second, about one-quarter of all our industrial investment now comes from abroad largely because we are part of the European Community. Nearly half of new American non-oil investment in Europe now comes to Britain, compared with a quarter before we joined.

Third, since joining the UK has received from Community sources over £6,000m; one-third in direct grants to which we contribute, and two-thirds in soft loans which would not otherwise be available to us.

Fourth, contrary to popular belief, food prices have actually risen less than prices generally since we joined. Indeed, thanks to the Common Agricultural Policy we now produce three-quarters of our needs of temperate foodstuffs, and our exports of food to the European Community pay for half of our food imports from them.

Fifth, as part of the Community, which is the world's largest and richest trading bloc, Britain can much better defend her economic and political interests than she ever could on her own.

Sixth, all these benefits, many of which cannot be quantified in money terms, cost the British taxpayer less than 1 per cent of total public expenditure.

Ernest Wistrich, Director.
The European Movement,
Europe House.
1A Whitehall Place, SW1.

Guatemalan oil pipeline

From Mr John D. Park.

Sir,—Your article of October 21 by Mr Hugh O'Shaughnessy entitled "Guatemalan oil pipeline sabotaged by guerrillas" is misleading.

The facts are:—

1. The undersigned owns 62 per cent of the oil field and pipeline.

2. This pipeline runs above ground approximately 130 miles from the Rubelsanto oil field to the east coast of Guatemala. It is unguarded throughout its entire length. There are no guards in the oil field or the export terminal. We do not keep as much as a hand gun in the oil field, pipeline camps or terminals. The military does not guard the oil field nor patrol the pipeline.

3. There have been a few minor interruptions in service on the pipeline over the past year and a-half since the pipeline has gone into operation, none of which interfered with the production of the oil field by as much as one day. We know of one interruption, rumoured to be caused by guerrillas, which turned out to be caused by a small flood, and we suspect that minor employee dissatisfaction caused by a reduction in work force, was the major contributor to these relatively insignificant incidents. There have been no incidents of any nature for the past six months, and the total cost of repairs for these incidents to date has been less than £10,000.

4. Approximately one year ago a small band that probably were guerrillas, but who could have been bandits, visited our Rubelsanto plant in the jungle. They found our Guatemalan workers hostile to their cause. They shortly left. No one was harmed or threatened. Damage to the plant was negligible. There was no damage to the oil field.

In your reporting on Guatemala you should be aware of the existence of a propaganda effort to destabilise the country. I would draw your attention to the editorial in the October 19, 1981, issue of the Wall Street Journal which comments on the efforts of what it characterises as a "disturbingly effective left-wing propaganda campaign" against Central America.

John D. Park.
Basic Resources International S.A., New York City, U.S.

Sour note in Malaysian trade

From Mr A. P. Greening

Sir,—Regarding your report on the "trade curb" recently confirmed by the Malaysian Prime Minister, Dr Mahathir is quoted as stating that the action stems from what his Government feels are snubs and hostility by British concerns over issues such as air agreements, education policy, and accusations of "backdoor and front-door nationalisation" etc.

In my opinion the points made by Dr Mahathir are perfectly valid, since the British were reluctant to allow Malaysian Airlines to increase their flights between Kuala Lumpur and Heathrow, whilst at the same time it was assumed that permission for the Concorde to overfly Malaysian airspace en route to Singapore would be a mere formality.

Also, since the present UK Government increased the fees for Overseas Students, a large burden has fallen on parents of those Malaysian students already studying, or hoping to take up courses, in the UK. Recently an appeal was made to British firms in Malaysia to sponsor Malaysian students: not a single British firm was prepared to offer sponsorship.

Is it any wonder that the Malaysians are driven to extreme measures to bring home to the present UK Government, and to British firms, that the "special relationship" between the two countries is now at risk.

Unfortunately, the results of short-sighted policies by the British in recent years cannot be repaired easily, and what is needed now is an entirely new outlook and a fresh approach to the Malaysians, both by our own Government and by British firms with interests in Malaysia.

Mr A. P. Greening,
"First House,"
St Elizabeth's Avenue,
Bitterne, Southampton.

The free lunch syndrome

From Dr Graham Hallett

Sir,—Professor Wood (October 21) argues that, in spite of large Government deficits in most years, there have not really been any government deficits in the UK since 1969, since the value of the national debt as a percentage of GNP, or "in real terms," has fallen. He suggests that it is Germany and Japan which are "the home of free lunches" because their national debt has risen in real terms. He concludes—if I understand him correctly—that any concern to limit the PSBR at the present time is misplaced.

The value of the British national debt has fallen in real terms because of what the late Professor D. H. Robertson called "a secular robbery, through the depreciation of money, of those who have sought to keep their savings safe." Inflation reduces the nominal value of the national debt, and rises in interest rates, which tend to go with inflation, reduce market values. The fall in the value of the British national debt reflects the higher inflation rate in the UK compared with, eg, Germany. A hyperinflation could virtually wipe out the national debt, as has happened in some countries.

It may be answered that, robbery or not, British Governments have reduced the real value of their debt; why cannot they go on doing so? One answer is that the record of inflationary fraud has made investors demand historically very high interest rates, which are a burden on industry (even if "real" rates are low, because of "front loading" and uncertainty about future inflation). I am in favour of indexed gilt-edged bonds, but in a situation where complete indexing does not exist, nominal interest rates matter.

I do not wish to discuss whether the British PSBR at the present time should be higher or lower, but I do suggest that a PSBR at its present level in relation to GNP has important effects on interest rates, and that it cannot be dismissed as an optical illusion because of calculations of the real value of the national debt. "Real" calculations are necessary in an inflationary age, but are subject to as many pitfalls as nominal ones.

Graham Hallett.
Department of Economics,
University College, Cardiff.

Blinkered approach to education

From Mr J. E. Russell

Sir,—With respect to Geoffrey Caston and his Committee of Principles and Vice-Chancellors, the British universities are not doing all they could to educate our children at all. They are doing a very poor job. They keep our children at school far too long becoming too narrowly trained for their A-levels, and then reduce the standard of their education even further by insisting on a narrow short time, less than twenty months on average, during which the Universities specialise them even further. Surely the pressure from the Government is a golden opportunity for the Universities to put their houses in order: to revert to taking children at sixteen and to aim to keep them for six or seven years with a minimum of nine months education per year; to insist that narrow specialisation must be coupled with a good general education at high level: to separate the teaching function at Universities from the research/aged don syndrome: and to expand the Universities to do this by taking in many of the teachers now employed in sixth form colleges. Be positive, Mr Caston. Use your opportunity. Give us an education system at least equal to that in most of Europe, and better if you can.

J. E. Russell,
23, Milbank Court,
Darlington.

UK COMPANY NEWS

Cable & Wireless prospectus today

THE PROSPECTUS is published today for the offer for sale of 133.3m ordinary 50p shares of Cable and Wireless, the state-owned overseas telecommunications company, at 168p per share.

The public is being offered just under 50 per cent of the share capital of the company as enlarged by the Government's subscription for 70m shares at par immediately prior to the offer.

The directors are forecasting a pre-tax profit of at least £54m in the current year at March 1982 or 14.3p a share assuming a full tax charge.

An interim dividend of £3.5m has already been paid to the Government and the directors propose to pay a second interim of 1.3p per share next April and a final of 3.7p in October, 1982. Had the shares been listed for the full year, the directors would have expected to recommend a total dividend of 6.3p.

Pre-tax profits have grown from £21.5m in 1975 to £62m in the last financial year. Over the same period, turnover has risen from £71.8m to £293m. A pro-forma balance sheet at March 31, 1981 shows net tangible assets of £307.2m, of which £202.5m are fixed assets. There is a net cash balance of £125.6m.

The balance sheet has been adjusted to reflect the £34.5m net proceeds from the flotation plus the sale of 20 per cent of the company's Hong Kong operation and 60 per cent of its business in Bahrain.

The Government is to retain 50.53 per cent of the shares but has agreed to transfer up to 0.53 per cent to the company's employee share scheme over five years, leaving it with 50 per cent plus one share. No other shareholder will be allowed to hold a more than 15 per cent stake.

The offer has been underwritten by Kleinwort, Benson, Baring Brothers and J. Henry Schroder Wagg. Brokers are Cazenove, James Capel and Rowe and Pitman.

The offer closes on October 30 and dealings are expected to begin on the Stock Exchange on November 6.

● comment

The Cable and Wireless prospectus confirms that Hong Kong and, to a lesser extent, Bahrain are the group's key money spinners. Last year Hong Kong alone contributed about 60 per cent of adjusted trading profits. The challenge for the investor is to decide whether or not the group's massive £80m-£100m annual investment programme will generate good returns elsewhere. Technical progress and deregulation in the U.S. and UK are bringing new opportunities but the risks and the required spending are large. The Hong Kong franchise has been tied down with a 25-year deal and although some political risk exists there it may not be as great as that of renationalisation of the whole group by the UK Government. The considerable growth in international telecommunications traffic has not been fully reflected in Cable's profits in recent years because of the strong pound but exchange rates are now moving in the group's favour. The dividend, twice covered by prospective historic cost earnings, produces an adequate yield of 5.4 per cent, while the obvious foreign interest in the shares, coupled with its rarity value, should compensate for a p/e which looks a little on the high side at 13.3 times fully taxed prospective earnings.

FT Share Information

The following securities have been added to the Share Information Service:—

Hartons Group (Section: Industrials). **Nationwide Building Society 14¾ per cent Bonds** (25/8/82) (Loans - Building Societies). **Nippon Electric** (Electricals). **Precious Metals** (Investment Trusts). **Willaire Systems** (Industrials).

BURNETT & HALLAMSHIRE

The mining division at Burnett and Hallamshire Holdings has received planning permission for the stabilisation of its site at Red Street, Newcastle Under Lyme, Staffordshire. Red Street has become part of the mining division's portfolio as result of the acquisition by B and H of *The Mining Investment Corporation* in 1979.

Dealings in North Sea Assets shares begin next Thursday

DEALINGS IN the shares of North Sea Assets (NSA), the investment group specialising in unquoted operating and service companies in the oil industry, are to begin on Thursday, October 29.

Hitherto, dealings have taken place under Stock Exchange rule 163 (2) and the price fell 8p to 142p on Friday.

Once NSA is listed, it will be in a position to qualify as an approved investment trust under the Income and Corporation Taxes Act 1970.

NSA, which is managed by Ivory and Sime, was formed in 1972 on the expectation that its investments would mature in about five years. In fact, net *tangible assets grew slowly from* the initial £20m subscription, reaching £24.2m in September, 1976, then declining in 1977 and 1979 before coming back to £24.7m in the last financial year.

The shares fell to a low of 50p, adjusted for scrip, in 1979 and institutional investors became disgruntled, seeking assurances about the direction of the company at the annual meeting in December 1979, and complaining about high management fees. The group started with three managers but two have left.

The portfolio now consists of £17.1m invested in 13 oil-related companies, two of them quoted. At September 30, there was also £767,000 invested in preference shares of British quoted oil companies and £4.1m in gilt-edged. Assets per share were 206p. The aggregate cost of the portfolio of oil-related companies was £12m.

NSA is being introduced to the Stock Exchange by Kleinwort Benson and brokers to the introduction are James Capel and Bell, Lawrie, Macgregor.

● comment

North Sea Assets originally hoped its investments would mature in five years, then allowed that it might take 10. According to the latest figures, the oil-related portfolio has grown only 42 per cent in its nine-year life and a majority of the investments have been made since the 1979 shake-up. However, unlike at East of Scotland Onshore, which was floated in July, directors' valuations of the unquoted investments have been kept very modest. Some of the unquoted companies in the portfolio, such as Ben Line Offshore and British Oceanics, are certainly successful in their fields and current trading conditions are buoyant. The 30 per cent discount to assets in the 142p share price may be looking more backward than forward. East of Scotland is at a discount of only about 17 per cent.

CHURCHBURY/ LAW LAND

The Churchbury Estates offer for Law Land will close, and will not be extended beyond November 12. It will not be increased. Churchbury now controls over 86 per cent of Law Land.

SHARE STAKES

Hall Engineering (Holdings)—Mr J. S. Tainton has acquired 10,000 shares. He is a director *of John Tainton, a subsidiary* of Hall Engineering (Holdings).

Pritchard Services Group—Mr H. R. N. Jamieson, director, purchased 12,500 shares.

RMC completes purchase of RWK stake

FOLLOWING authorisation by the West German Cartel Office, Ready Mixed Concrete has completed the purchase of a 49 per cent shareholding in Rheinisch-Wesfaelische Kalwerke AG (RWK) from Eastel Hoesch Werke (Hoesch) for DM 66.7m. The purchase was announced on July 17.

RWK, which is a publicly quoted company, is one of the largest producers of lime and limestone in West Germany. Its turnover in 1980 was £165.2m.

Readymix AG — a 63.6 per cent owned subsidiary of RMC — will also acquire 74.9 per cent of a new company which, from January 1, 1982, will operate the cement grinding plant at present owned by Hoesch, holder of the remaining shares in the new enterprise. RMC's expenditure on this transaction will initially be of the order of DM 15m.

As a result of RMC's interest in RWK, Mr John Camden — chairman of RMC — has been appointed to the supervisory board of RWK, as have Dr Bruno Baumgarten and Dr Hermann Warmke. Mr Camden will act as chairman.

This is the latest in a series of foreing acquisitions by RMC this ear.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Bishopsgate Trust, Feb International, St. George's Group.

Finals—Highland Distilleries.

FUTURE DATES

Interims:—

Boot (Henry)	Nov. 5
Dualvest	Oct. 27
English and Intnl. Trust	Oct. 27
Miller (Stanley)	Oct. 30
United Ceramic Distributors	Oct. 28

Finals:—

Safeguard Industrial Investments	Nov. 4
Wolseley-Hughes	Nov. 11
Wood Hall Trust	Oct. 30

SPAIN

1981 High	1981 Low		Oct. 23 Price %
388	251	Banco Bilbao	341
395	280	Banco Central	326
436	229	Banco Exterior	305
346	229	Banco Hispano	309
128	117	Banco Ind. Cat.	117
410	284	Banco Santander	394
249	148	Banco Urquijo	223
404	253	Banco Vizcaya	352
286	204	Banco Zaragoza	228
223	82	Dragados	157
81	45	Espanola Zinc	72
74.2	55.5	Fecsa	66.5
65	72	Gal. Preciados	45
86	63.5	Hidrola	78.2
62.5	52	Iberduero	58
128.7	70	Petroleos	101
85	70	Petroliber	82
102	87	Sogefisa	91
90	60	Telefonica	79
82.5	60	Union Elect.	74

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest %	Interest payable	Minimum sum £	Life of bond Year
Knowsley (051-548 6555)	14½	½-year	1,000	1-3
Rushcliffe (0602-811511)	14½	½-year	500	1-4

M. J. H. Nightingale & Co. Limited

27/28 Lovat Lane London EC3R 8EB Telephone 01-621 1212

Capitalisation £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
1,054	ABI Hldgs. 10pc CULS	109	—	10.0	9.2	—	—
3,821	Airsprung	69xd	−4	4.7	7.1	10.5	14.5
1,075	Armitage and Rhodes	43	−4	4.3	10.0	3.6	8.1
1,173	Bardon Hill	182	+7	9.7	5.1	8.3	11.4
7,482	Deborah Services	77	—	5.5	5.7	4.8	5.1
4,312	Frank Horsell	115	—	6.4	5.6	10.4	25.0
6,934	Frederick Parker	59	—	1.7	2.9	25.7	—
504	George Blair	49	—	—	—	—	—
3,899	IPC	98	—	7.3	7.6	6.9	40.4
2,454	Jackson Group	97	+2	7.0	7.2	3.1	6.9
15,182	James Burrough	110	+2	8.7	7.9	8.0	10.1
2,837	Robert Jenkins	283	−2	31.3	11.1	3.9	10.0
3,580	Scruttons "A"	63	—	5.3	10.0	8.2	7.8
2,577	Torday	187	—	15.1	8.1	7.2	12.4
2,692	Twinlock Ord.	14	+1	—	—	—	—
2,157	Twinlock 15pc ULS	79	+1	15.0	19.0	—	—
5,035	Unilock Holdings	33	−1	3.0	9.0	5.3	10.0
10,820	Walter Alexander	83	−1	6.4	7.7	5.5	9.7
8,228	W. S. Yeates	224	−1	13.1	5.8	4.2	8.6

THE TRING HALL USM INDEX

108.4 (−1.6)

close of business 23/10/81

BASE RATE 10/11/80 100

Tel: 01-638 1591

CORAL INDEX

Close 458-463 (−4)

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INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

BY ALAN FRIEDMAN

Pessimism subdues the market

THERE WAS no more talk of a rally on the Eurobond markets last week. After nearly $2bn of new fixed interest Eurodollar paper in the past month and amid renewed pessimism about short-term U.S. interest rates, traders spoke instead of feeling "uncomfortable" and "heavy with paper."

In the primary market, the Eurodollar sector was almost funereal. Only two new straight issues, totalling a grand $160m, saw the light of day.

In the D-mark foreign bond sector, Deutsche Bank started the week by postponing its planned issue for an industrial concern, believed to be Ford Motor; there was only one new issue: a DM 100m offer for Eurofima.

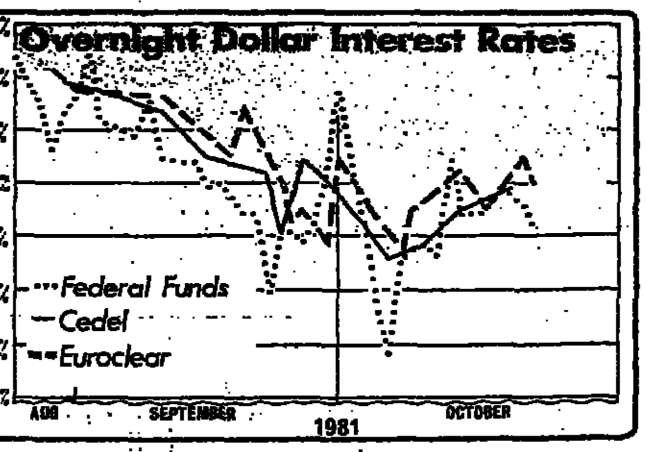
In the Swiss franc foreign bond market, new public issues amounted to SwFr 180m. These were a SwFr 80m issue for the Asian Development Bank and a SwFr 100m 12-year offer for Unilever NV.

In the secondary market, Eurodollar traders found some limited investor interest in quality paper, but spent more of their time reducing their positions and continuing to talk about the dour predictions of Dr Henry Kaufman, the Salomon Brothers economics guru.

Prices of Eurodollar bonds declined by an average of a point, but there were larger falls such as the drop in the World Bank's 16 per cent coupon 1986 bonds from 96½ bid on Monday to 97½ on Friday.

A week ago today the market was not convinced that hopes of a rally had been killed off. But as of Friday evening there were many in London, Frankfurt and Zurich who were not even talking of consolidation any more. What happened?

First, the Euromarkets watched as the New York bond market sank steadily. The 30-year U.S. Treasury paper fell three points from its Monday opening mid-price of 96½ before recovering slightly on Friday in what was largely a technical pick-up.



Secondly, Eurobond dealers who had been busy placing the flood of recent paper decided that their own positions were too large. With a Euroclear overnight rate of 16½ per cent until Wednesday night, it was becoming more and more difficult to achieve a "positive carry." In other words the cost of short-term money was making it hard for dealers to finance the holding of bonds unless their coupons were nearly 17 per cent—above the average level.

Besides other key indicators, such as the six-month Eurocurrency deposit rates, the Euroclear and Cedel overnight rates (see chart) are important statistics for professional dealers. Euroclear and Cedel, the two international bond clearing houses, charge dealers these rates for short-term money. The Cedel rate, which is based on lending by banks and not by Cedel, has been generally lower than Euroclear's rate, which is tied to lending by Morgan Guaranty.

The Fed funds rate is an important indicator of U.S. day-to-day interest rate thinking. Fed funds were down below 15 per cent on Friday, but the prospect of the next U.S. quarterly refunding exercise, which is expected to raise $8.75bn, was already acting as a dampener in New York and Europe last week, although the auction is not until the first week of November.

In the Eurodollar sector last week a $100m 15-year bond for the Caisse Francaise des Matieres Premieres, France's mineral stockpiling body, was launched through Credit Commercial de France. At a time when French borrowers were said to be losing their gloss, this deal did rather well.

The reasons for its success, however, are technical. The coupon was high at 16¾ per cent and the coupon is to be adjusted every three years, following the structure set by the recent issue for the Municipal Authority of British Columbia.

Nevertheless, the subscription period, which was to have ended this Wednesday, closed on Friday and the issue was priced at 99¾. The lead manager reported oversubscription.

In the D-mark sector, a lower-than-expected September current account deficit of DM 2.2bn was somewhat heartening news for the market, but it came too late to affect trading. The Eurofima issue, led by Deutsche Bank and carrying a 10½ per cent coupon, was trading at 98½ bid on Thursday against its issue price of par. On Friday it traded at 99 bid.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life Years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
†Ireland	100	1988	7	5¼◊	100	Manufacturers Hanover	5.319◊
‡†Bank of Nova Scotia	100	1993	12	5¼◊	100	CSFB	5.319◊
‡†Nordic Intnl. Fin. BV	40	1991	10	5½◊	100	CSFB	5.576◊
§Wal-mart Stores	50	1996	15	8¾–9	100	Morgan Grenfell	*
‡†Bank of Montreal	125	1991	10	5¼◊	100	Morgan Stanley, UBS	5.319◊
†Oest. Volksbank	25	1989	8	5¼◊	100	London & Cont. Bkrs.	5.319◊
**†Showa Denko	50	1988	7	16	100	Citicorp	16.000
‡†Nafinsa	150	1991	9	—	100	CCF, Caisse des Depots	—
‡†Oest. Kontrollbank	100	1986	5	—	100	Orion Royal Bank	—
†Banca de la Nacion, Peru	25	1986	5	7◊	100	Arab Bnkg. Corp., Arlabank	7.123
Consolidated Bathurst	60	1988	6½	17½	*	Orion Royal	*
‡Caisse Francaise des Matieres Premieres (g'teed France)	100	1996	15	16¾	99¾	CCF	16.919
‡††World Bank	300	1986	5	16¼	99.784	Salomon Bros.	16.440
‡††World Bank	200	1991	10	16¼	100	Salomon Bros.	16.000
CANADIAN DOLLARS							
Province of Quebec	50	1987	6	17½	100	Societe Generale	17.500
Canadian Pacific Secs.	40	1987	6	17¾	100	Orion Royal Bank	17.750
D-MARKS							
‡Mtg. Bank of Denmark	100	1991	10	10½	99½	WestLB	10.584
‡Eurofima	100	1991	10	10¼	100	Deutsche Bank	10.250
SWISS FRANCS							
‡Heron Intnl. Fin. NV	50	1991	—	8½	99	Banque Keyser Ullman en Suisse	8.653
‡New Zealand	100	1991	—	7½	100	SBC	7.500
‡Asian Dev. Bank	80	1990	—	8	99	Credit Suisse	8.161
‡**TransAmerica Fin. Corp. NV	20	1989	—	8½	100	Soditic	8.500
						Paribas (Suisse)	6.625
‡**§Osaka Cement	20	1986	—	6¼	100	UBS	8.125
‡**Bell Canada	150	1987	—	8¾	100	SBC	*
Unilever NV	100	1993	—	7½	*	Wirtschafts-und Privatbank	
‡**Oest. Kontrollbank	30	1986	—	8½	100		8.125
NORWEGIAN KRONER						Den norske Credietbk.	13.000
‡World Bank	100	1986	5	13	100		
GUILDERS						AmRo Bank	12.390
‡**Belgelectric	60	1986	5	12½	99½		
LUXEMBOURG FRANCS						Kredietbank	14.750
‡**Swedish Export Credit	150	1986	5	14½	100		
YEN							
‡Norges Kommunalbank	15bn	1993	9.6	8.8	99.95	Nomura Intnl.	9.001
KUWAITI DINARS							
Credit National	7	1991	7	*	*	KIC, Paribas	11¾
EUAs							
City of Montreal	25	1988	6	13½	*	Kredietbank	*

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ◊ Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission. ¶ Purchase Fund. ‖ Cancelled.
Note: Yields are calculated on AIBD basis.

CREDITS

BY PETER MONTAGNON

Venezuela returns

VENEZUELA is returning to the medium-term Eurocredit market for the first time in more than a year. The first formal steps were taken last week with an invitation to banks to submit terms on a ten-year $500m credit.

The credit follows passage late this summer of the country's new Public Credit Law, which has effectively restored its power to borrow medium-term money. Legal constraints imposed by the Venezuelan Congress had previously forced Venezuelan debtors to concentrate on very short-term Eurocredits.

This was done in such a disorderly way that bankers now say it is hard to assess a correct price for a medium-term borrowing by the republic. The credit, for which bids have to be submitted by the end of the month, is also being launched at a time of increasing volatility in the market generally.

Fresh evidence of this volatility surfaced last week with news that European Banking Company has had to fine tune the terms on its $500m credit for the Petroleum Corporation of New Zealand to attract more of the borrower's traditional relationship banks.

The spreads on the credit—which range between ⅜ and 0.45 per cent—have been left unchanged, but participants are being offered an increased fee. For amounts of $50m this has been raised to ⅛ and for amounts of $25m to 1/16 per cent from a previous flat 1/16 throughout.

The difference in overall yield is slight, but the move underlines how sensitive pricing of loans has become at the fine spread end of the market. It follows a similar move by EDF of France, which 10 days ago raised the commitment fee it is paying on its current $500m standby credit.

Late last week it was understood that the New Zealand deal was about half way complete. Syndication of the EDF deal was also making headway, but in a market that was less than enthusiastic.

Resistance to this particular operation arises in part from the market's belief that drawings by French borrowers on their standby credits will become more frequent if margins on French state borrowings start to rise, as some bankers expect. The credit is mainly intended as back-up for commercial paper borrowing in the U.S., and this too could become harder if, as some bankers fear, a credit crunch develops on the other side of the Atlantic this winter.

One alternative market for international borrowers that is meanwhile becoming increasingly popular is the UK bankers' acceptance market. Besides the already-reported borrowing by Gaz de France, which has been raised to £135m from £100m, two further operations emerged last week.

One is a £75m two-year facility for Brazil's oil concern, Petrobras. This bears an acceptance commission of ⅝ per cent for the first year and ¾ per cent for the second and is being led by Lloyds Bank International.

The other is a £150m five-year facility for companies in Italy's ENI group. Led by S. G. Warburg, the facility carries a commission of 7/16 per cent, slightly below the ½ per cent paid on a similar deal by the same borrower last month.

The borrower has an option to raise dollars directly at a margin of ½ per cent over London interbank offered rate if this is cheaper than swapping the sterling proceeds of its borrowing into the U.S. currency.

U.S. BONDS

BY DAVID LASCELLES

Re-funding blues on Wall Street

A SENSE of encroaching gloom pervades the U.S. bond markets. Prices moved uneasily downwards most of last week, and showed an extra little dip late on Friday after the Federal Reserve reported that the money supply measure, M1-B, had fallen by $1.5bn, less than Wall Street had been looking for to offset the huge $5.6bn gain the week before.

The focus of the market's worries is the impending quarterly re-funding by the U.S. Treasury, details of which should become available this week. Although it is unlikely to contain many surprises, given the ample advance warning Wall Street received, the plain fact that the Treasury is in the market in a big way is bound to stir familiar fears about the budget deficit, and all that that implies. And until Wall Street can assess how well the re-funding is going, analysts doubt that the market will show much strength.

The re-funding is the centrepiece of the Treasury's quarterly financing exercise. Most of the $35bn or so it needs will be raised through routine sales of bills and notes. But a quarter of this, about $8bn-9bn, will be raised as a set piece in the first week of November. The indications are that, as usual, it will consist of short and medium-term notes and a long bond.

The bond will then become a benchmark for the market until the next re-funding in the new year. Judging by last week's performance, the long bond may well set a record yield for a 30-year Treasury issue. The current long bond, which itself set a record when it was auctioned at 14.06 per cent in August, closed the week a fraction below 15 per cent.

The week's big event was the World Bank's $500m note issue. Originally slated for last June, it was repeatedly postponed because of the sliding market. But the lead underwriter, Salomon Brothers, finally pushed it out on Thursday. The issue was in two parts, $250m of five-year notes, which were priced to yield 16.44 per cent, and a similar amount of 10-year notes priced to yield 16.63 per cent. Salomon estimated that both portions were 80 per cent sold on the first day.

This week's slated issues include $300m of Bell System bonds (from Southern Bell) and two large bank issues. Bank of America plans to offer $200m of eight-year notes whose annual rate of interest will be at least 105 per cent of a weekly average two-year Treasury rate. The rate will be adjusted every two years. Citicorp will sell $150m of five-year notes, the latest in its quarterly offerings designed to strengthen its balance sheet and reduce its vulnerability to sharp changes in interest rates.

U.S. INTEREST RATES (%)

	Week to Oct 23	Week to Oct 16
Fed funds wkly. av.	15.49	15.36
3-month Treas. bills	13.24	13.53
3-month CD	15.45	15.05
30-year Treas. bond	14.86	14.34
AA Industrial	16.63	16.26
AAA Util.	17.50	17.13
Visible supply ($bn)	7.4	7.4

Sources: Salomon Bros. & First Boston

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
CIBC 15¾ 86	75	95¼	95¾	−0½	−0½	16.48
CIBC 16½ 91	100	98½	99	0	−0½	17.01
CNA 15¾ 96	75	91¾	92¼	+0¼	0	16.72
CNE 12¾ 91	100	80¾	81¼	+0¼	−0¼	16.91
[illegible]						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
CIBC 13½ 85 C$	50	90	91	0	0	17.18
CIBC 11½ 85 C$	50	84¼	85¼	0	+0¼	17.32
Federal Dev. 11¼ 90 C$	50	†76	77	0	0	16.78
Federal Dev. 17¾ 85 C$	40	†99	100	−0½	+0½	17.9?
[illegible]						

[illegible]

EUROBOND TURNOVER
(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	3,065.8	5,766.7
Previous week	3,967.2	5,546.3
Other bonds		
Last week	749.1	363.6
Previous week	830.1	369.0

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Credit Commercial de France (Securities) London; Citicorp International Bank; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Manufacturers Hanover; Merrill Lynch; Morgan Stanley International; Nikko Securities Company (Europe); Orion Royal Bank; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on October 23

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Smith Anger Greenways Hotel West Malling Kent. 4.00
Jas. Higgs. 20 Fenchurch Street EC. 12.00
Mansar Finance Tst. Grosvenor House Hotel Park Lane W 12.00

BOARD MEETINGS—
Finals:
Highland Distilleries
Interims:
Bishopsgate Tst.
Feb Intnl.
St. George's Grp.

DIVIDEND & INTEREST PAYMENTS—
Commercial Bank of Sydney 19.5cts
Gen. and Commercial Inv. Tst. 4p
Gen. Electric Co. 80cts
Howard Shuttering 1.2p
[illegible]
Johannesburg Cons. Inv. 252.5725p
Land Investors 0.8p
Mallinson-Denny 52.280522pc
Mansar Finance Tst. 1.5p
NCC Energy 1.15p
Pritchard Services Grp. 1.5p
Scottish Eastern Inv. Tst. 1.5p
Sunlight Service Grp. 0.9p

TOMORROW

COMPANY MEETINGS—
City Acre Property Inv. Tst. 37A Walbrook EC 12.00
Eastern Hldgs. Great Eastern Hotel, Liverpool Street EC 12.00
Excalibur Jewellery Chamber of Commerce 75 Harborne Road Birmingham 12.00
FMC Agriculture House 25-31 Knightsbridge SW. 12.00
Kleeman Consulting Engineers St. Ermins Hotel Caxton Street SW. 12.05

BOARD MEETINGS—
Finals:
British Car Auction
Brooke Bond Liebig
North Atlantic Securities Corp.
Interims:
Canadian and Foreign Inv. Tst.
Central and Sheerwood
[illegible]
English and Intnl. Tst.
English National Inv.
Harrisons and Crosfield
Hall (James)
Punchman (Walter)

DIVIDEND & INTEREST PAYMENTS—
[illegible]

DIVIDEND & INTEREST PAYMENTS—
Canadian Imperial Bank of Commerce 50cts
Gresham House Estate 2.25p
Highlands and Lowlands Berhad 0.65452p
Toronto Dominion Bank 45cts

THURSDAY OCTOBER 29

COMPANY MEETINGS—
Cray Electronics. Institute of Directors 116 Pall Mall SW 12.00
Emess Lighting 211 Piccadilly W 11.30
[illegible] 25-35 City Road EC 12.00
[illegible] Vale Road N 11.00
Park Place Invs.. Avenue House, 131-133 Holland Park Avenue W. 12.00
Sugar. Flanshawe Lane. Alverthorpe Wakefield 12.00
Stewart Plastics Purley Way Croydon Surrey 12.00

BOARD MEETINGS—
Finals:
Bailey (Ben) Construction
Burgess Products
Simpson (S.)
Smart (J.) (Contractors)
Interims:
ESG Intnl.
Bambers Stores
Coats Patons
Hill (Philip) Inv. Tst.
Hopkinsons Hldgs.
Lunuva (Ceylon) Tea and Rubber Estates
Modern Engineers of Bristol
Press (William)
Save and Prosper Linked Inv. Tst.

DIVIDEND & INTEREST PAYMENTS—
Assoc. Dairies Grp. 2p
Bank Leumi Le-Israel BM SHs 0.006
Bank of Nova Scotia 44cts
Coronation Syndicate 17.3046p
De Beers Cons. Mines Dfd (Reg.) 22cts Dfd. (Br.) 23cts
De Beers Ind. Corp. 55cts. Pf 2½pc
FMC 2p
Shreeves 3p
Stewart Plastics 1.8942p
Tilbury Contracting 6p
Tweefontein United Collieries 35.593p

FRIDAY OCTOBER 30

COMPANY MEETINGS—
Dixor (David) Dudley House Upper Albion Street Leeds. 11.45
Meat Trade Suppliers. Winchester House 100 Old Broad Street EC 12.00
Meran (Christopher) Claridge's Hotel Brook Street W 12.00
Smith Brothers Institute of Chartered [illegible]

[illegible]

SATURDAY OCTOBER 31

DIVIDEND & INTEREST PAYMENTS—
[illegible]

SUNDAY NOVEMBER 1

DIVIDEND & INTEREST PAYMENTS—
[illegible]

APPOINTMENTS

Changes at Glaxo Group

Mr **Hugh W. Gurney** has been appointed managing director of GLAXO RISK MANAGEMENT in succession to **Dr Hugh McCorquodale** who has taken up other duties with Glaxo. **Mr Ian A. K. Drewer**. has been appointed a director of Glaxo Risk Management. He remains group insurance manager, Glaxo Holdings.

★

UKAY FURNISHING CENTRES. a subsidiary of Associated Dairies Group, has appointed **Mr R. A. Day** as chief executive. He succeeds **Mr Leslie Ames** who left the company on October 12.

★

Mr Paul Stone has been appointed to the Board of JOHN WILLIAMS FOUNDRIES. a member of the John Williams Group. Mr Stone joined John Williams in March 1977 as production manager and he now holds the position of works director.

★

Mr Gordon McLelland has been appointed managing director of WM. THYNE (PLASTICS). **Mr Alan Buttle**, financial director, and **Mr Robert Illingworth**, deputy chairman of the plastics division, have been appointed to the Board.

★

Mr Chris Glassen has been made chief executive of VICKERS business equipment division. His operating bases will be in the UK at the division's headquarters at Dartford. Kent. and in France at the Compagnie du Roneo in Paris.

★

Mr Roy Benniston and **Mr Barry Matthews** have been appointed to the board of H. PICKUP STRUCTURAL ENGINEERING. a subsidiary of Allied Plant Group.

★

Mr Harvey Tobias, previously a director of Peter Black Leisurewear. has been appointed chairman of FAIRSAN, an associated company of the Jeffrey Port Group which has taken over the assets of Ronson Products.

★

Mr G. T. E. Priestley has been appointed managing director of CAWOODS (NORTHERN IRELAND). a Cawood Group subsidiary. **Mr Charles Neill** has been appointed deputy chairman of Cawoods (Northern Ireland).

★

Mr Ronald A. Chandler has resigned from the board of THE ENGLISH ASSOCIATION TRUST LIMITED.

Mr Alan Ure

Mr Colin Mansfield

TOP MANAGEMENT changes have been made by Trollope & Colls in preparation for the retirement next year of Mr Harry Reeves, the managing director, who will remain a member of the board.

Mr Alan Ure has been appointed a managing director of Trollope & Colis Limited and will succeed Mr Reeves fully when he completes his year as president of the National Federation of Building Trades Employers in May. Mr Ure was formerly managing director of Trollope & Colls Management Ltd.

Mr Colin Mansfield has been appointed managing director of Trollope & Colls Management in succession to Mr Ure, although he will remain on the board of Trollope & Colls.

Both companies are members of the UK building division of the Trafalgar House Group.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Oct 27-29	British Marine Trade Exhibition (0932 54511)	Metropole Centre, Brighton
Oct 27-29	Computer Graphics Exhibition (06274 28211)	Bloomsbury Centre
Oct 27-29	Electronic Test and Measuring Instrumentation Exhibition—TESTMEX (0322 4671)	Wembley Conference Centre
Oct. 29-Nov. 8	Model Engineering and Hobbies Exhibition (0455 637173)	Bingley Hall. Birmingham
Nov 3-5	Health & Safety at Work Exhibition (01-688 7788)	Wembley Conference Centre
Nov 3-10	Kensington Antiques Fair (04868 22562)	Town Hall
Nov 8-12	International Domestic and Contract Textiles Exhibition — DACTEX (01-372 2121)	NEC. Birmingham
Nov 10-11	Vending Equipment. Refreshment Services and Supplies Exhibition (0732 356444)	Bloomsbury Centre Hotel
Nov 10-15	International Furniture Show (01-724 0851)	NEC, Birmingham
Nov 12-22	Caravan Camping Holiday Show and Mobile Homes (01-353 4000)	Earls Court
Nov 15-13	Times and Sunday Times Business to Business Exhibition (01-729 0677)	Belle Vue, Manchester
Nov 17-20	Computer Peripheral and Small Computer Systems Exhibition and Conference (01-543 8040)	Olympia
Nov 23-29	International Food Wine and Kitchen Exhibition (06284 2442)	Bristol
Nov 25-27	Life Insurance Congress and Exhibition (01-550 8551)	Wembley Conference Centre

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	International Petroleum and Gas Exhibition (01-235 2425) (until Oct 27)	Moscow
Oct 27-31	Electrical Engineering Exhibition (01-540 1101)	Berlin
Oct 28-31	International Sports, Swimming Pools and Leisure Facilities Trade Fair (01-409 0956)	Cologne
Oct 30-Nov 10	Tokyo Motor Show	Tokyo
Oct 30-Nov 11	International and Gastronomic Fair (0271 812955)	Dijon
Nov 3-7	International Engineering Exhibition (01-821 7658)	Seoul
Nov 4-5	Resins and Pigments Exhibition (0737 68811)	Milan
Nov 4-5	International Ideas, Inventions and New Products Exhibition—IENA (01-930 7251)	Nuremburg
Nov 4-7	International Hardware Exhibition (0453 33083)	Singapore

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
Oct 27	LCCI: Focus on mainland Spain and the Canary Islands (01-248 4444)	69 Cannon Street. EC4
Oct 28	Dun and Bradstreet: More Effective Trade Credit Management (01-247 4377)	Albany Hotel. Birmingham
Oct 28-29	Croner: Employment Law Update (01-942 8966)	Kensington Close Hotel, W8
Oct 28-30	Institute of Purchasing and Supply national conference (0990 23711)	Harrogate
Oct 29-30	AMR: Management Buy-Outs (01-262 2732)	Royal Garden Hotel, W8
Oct 30	Local Radio Association discussion meeting (01-583 7229)	Connaught Rooms, WC2
Nov 4-6	American Tax Institute: International aspects of U.S.-European Taxation (Paris (1) 256 3370)	Carlton Hotel. Cannes
Nov. 5	London Export: Nigeria—Future Programmes (0322 3377)	Churchill Hotel, W1
Nov 9	Sweet and Maxwell: The Law and Practice of *International Finance* (01-583 9855)	*Hilton Hotel. W1*
Nov 12	IPS: Computer Purchasing (0990 23711)	Tower Hotel, E1
Nov 13	Bath Chamber of Commerce: The New Industrial Challenge (0225 60655)	Beaufort Hotel. Bath
Nov 16-17	FT Conference: World Telecommunications (01-621 1355)	Inter Continental, W1
Nov 17-18	Gower: International Treasury Management (01-240 5931)	Waldorf Hotel, WC2
Nov 17-18	Oyez: Implications of change in the London Gilts and Money Markets (01-242 2481)	Royal Garden Hotel, W8
Nov 17-20	European Congress for the Organisation of Financial Institutions (Luxembourg 2 09 31)	Luxembourg
Nov 18-20	First World Congress on Management Development (0234 48335)	Mark Lane. EC1
Nov 19	IPS: Telecommunications—the Changing Market (0990 23711)	Metropole Hotel, W2
Nov 19-20	Gower: Offshore Workshop '81—Construction and Supply Contracts (01-240 5931)	Café Royal, W1
Nov 23-24	MSS: Computer Appreciation for Managers/Users (0903 34755)	Worthing
Nov 24	Oyez: Purchase of Own Shares and Accounting Problems (01-242 2481)	Carlton Tower. SW1
Nov 24	Wm. Mercer: Employee Benefits in the U.S. (01-405 4243)	Royal Garden Hotel, W8
Nov 24-26	Seatrade Academy: Ship Finance (0223 353451)	Hong Kong
Nov 25-27	The Economist: Satellite Broadcasting—the next opportunity (01-839 7000)	Vienna

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

WORLD STOCK MARKETS

NEW YORK

[illegible]

CANADA

[illegible]

HOLLAND

[illegible]

NORWAY

[illegible]

ITALY

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

GERMANY

[illegible]

AUSTRALIA

[illegible]

SINGAPORE

[illegible]

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

Indices

NEW YORK —DOW JONES

[illegible]

STANDARD AND POORS

[illegible]

N.Y. S.E. ALL COMMON

[illegible]

MONTREAL

[illegible]

TORONTO Composite

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

[illegible]

Base values of all indices are 100 except Australia All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrials. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

HONG KONG

1981 High	1981 Low	Oct. 23	Price H.K. $
38.75	18.5	Cheung Kong	19
3.55	2.20	Cosmos Prop.	2.5
10.60	7.90	Cross Harbour	8.80
176	99.5	Hang Seng Bank	109
8.75	4.20	HK Electric	4.82
10.80	6.00	HK Kowloon Wh.	6.30
14.8	7.6	HK Land	8.10
20.1	12.2	HK Shanghai BK.	13.80
28.70	16.8	HK Telephone	17.7
25.5	13	Hutchison Wpa.	15.2
27.70	12.3	Jardine Math.	13.7
7.30	4.05	New World Dev.	4.70
7.60	4.15	O'seas Trust Bk.	4.65
21.60	7.2	SKH Props	8.80
20.3	9.7	Swire Pac A	11.10
9.10	4.95	Wheel'k Mard A.	5.80
6.0	4.10	Wheel'k Marit'e	5.30
5.40	2.00	World Int. Hldgs.	2.37

JAPAN

1981 High	1981 Low	Oct. 23	Price Yen
[illegible]			
241	147	Tokyu Corp.	206
526	214	Toshiba	365
550	410	TOTO	425
495	390	Toyo Seikan	399
1,640	724	Toyota Motor	1,100
4,380	2,400	Victor	3,240
860	671	Wacoal	740
1,210	722	Yamaha	812
640	510	Yamazaki	527
378	273	Yasuda Fire	302
705	497	Yokogawa Bdge	555

SOUTH AFRICA

1981 High	1981 Low	Oct. 23	Price Rand
4.5	2.80	Abercom	4.35
10	7.40	AE & Cl.	9.9
18.45	14.40	Anglo Am	17.6
133.0	90.00	Anglo Am. Gold	122.50
3.55	1.00	Anglo Am.Prop.	3.55
11.2	9.10	Barlow Rand	10.8
56.5	34.25	Buffels	52.75
7.80	4.85	CNA Invest	7.75
2.75	1.90	Currie Finance	2.65
10.90	8.30	De Beers	8.53
37.25	24.75	Driefontein	33.15
65.00	35.5	FS Geduld	54
110	54.0	Gold Fields SA	106
5.40	4.00	Highveld Steel	4.9
8.6	5.70	Huletts	8.55
43.75	28.00	Kloof	41
6.65	5.30	Nedbank	6.25
24	15.00	OK Bazaars	23.5
3.7	2.80	Protea Hldgs.	3.25
12.1	6.35	Rembrandt	11
4.95	3.00	Rennies	3.25
7.00	4.9	Rust Plat.	6.05
2.90	2.00	Sage Hldgs.	2.90
5.05	3.25	SA Brews	4.85
20.30	15.00	Tiger Oats	20.30
4.65	2.50	Unisec	4.65

Financial Rand US$0.74½ (Discount of 28%)

BRAZIL

1981 High	1981 Low	Oct. 23	Price Cruz
1.90	0.76	Acesita	1.40
7.95	3.05	Banco Brasil	7.95
1.57	1.40	Banco Itau	1.55
4.35	1.80	Belgo. Min.	4.10
4.21	2.80	Lojas Amer.	4.06
6.79	2.12	Petrobras PP	6.79
1.70	1.05	Pirelli OP	1.20
9.95	2.05	Souza Cruz	5.40
7.50	4.90	Unip PE	6.60
11.20	4.50	Vale Rio Doce	11.20

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

Heads win VAT saving

HEAD TEACHERS have won a cut in costs for most parents who pay for their children to stay in holiday camps during educational trips away from schools.

The savings follow a Customs and Excise decision to exempt such visits from VAT, following lengthy negotiations with the National Association of Head Teachers.

Except where subsidised by local authorities, parents have had to pay the full cost of their children's accommodation.

Two years ag othe authorities ruled that VAT should be added to the bills.

Cable and Wireless

There is always the possibility that an overseas government may seek to acquire, or increase its interest in, the Group's operations in its territory before the expiry of the relevant franchise, and a few governments have indicated their desire to do so. In the Group's experience most acquisitions of this nature by governments have been negotiated on a basis related to the value of the assets employed, and the Group has sometimes continued to manage the business for the overseas government for at least a short period.

The Directors believe that the best means of securing the long-term future of Cable and Wireless's franchise business and stimulating its growth is by continuing to provide the high quality service which is necessary to maintain the confidence of overseas governments and customers. Cable and Wireless has the skills and financial resources to provide an efficient and flexible service in many different territories and it has demonstrated its ability to develop and expand its services at the rates necessary for growing economies such as Hong Kong, Bahrain and Bermuda, thereby helping to stimulate those economies.

The level of profit from the franchise business depends on, among other things, the level of tariffs and on the division of revenues for international traffic with the operators of internal services in those territories where the Group provides only external services. While changes in the level of tariffs may be proposed by the Group, they are usually subject to formal or informal control by governments. Tariffs for international traffic may be constrained by the pricing policy of other international carriers and by competition for transit traffic. The improvement in technology and the rise in the volume of traffic have lowered the unit costs of international telecommunications and permitted the level of tariffs to fall in comparison with the price of most goods and services.

Although the existence of exchange controls in certain of the territories in which Cable and Wireless operates has not materially restricted payments within Cable and Wireless, it is always possible that restrictive exchange controls may be introduced in any territory; the Directors are not, however, aware of any proposals to introduce such restrictive exchange controls in any of the territories in which Cable and Wireless operates.

By virtue of its franchises around the world, Cable and Wireless is a significant carrier of international telecommunications traffic, competing successfully for transit traffic originating and terminating in locations where it does not itself operate. It has also been able to develop a significant business as a provider, in whole or in part, of private networks of leased circuits for large international businesses and other customers.

The services provided by Cable and Wireless under its franchise business are set out below, together with information on the related volume and turnover. In terms of local currency, turnover is determined by traffic volume and tariffs but, when expressed in sterling, is also determined by the exchange rates between sterling and other currencies. The figures for turnover given below have been converted into sterling at the average rates of exchange ruling for the relevant years. The turnover figures for telephone, telex and telegraph services exclude turnover from leased circuits, which is shown separately.

Telephone services. The improvements over the last thirty years or so in the quality of international telephone services have greatly stimulated international telephone traffic, which is mainly for business use although the volume of social calls is also growing rapidly. Over the seven years to 31st March, 1981, traffic carried by the Group on its international telephone circuits increased from around 57 million minutes to around 217 million minutes per annum and turnover increased from around £21 million to around £68 million per annum. The internal telephone service in Bahrain, with some 44,500 lines, is the largest of the internal telephone services provided by Cable and Wireless; the others are relatively small in scale.

Telex services. Telex is a service primarily for business use, providing rapid telecommunications in printed form from subscriber to subscriber. Cable and Wireless not only acts as a carrier of telex traffic but also leases teleprinters to subscribers, renting connecting lines as necessary from internal telephone services. Over the seven years to 31st March, 1981, telex traffic carried by the Group increased from around 26 million minutes to around 87 million minutes per annum and turnover increased from around £18 million to around £54 million per annum.

Telegraph services. Although there are countries where for special reasons public telegraph traffic is still growing, telegraphy has to a large extent been overshadowed by telex and telephone services. Over the seven years to 31st March, 1981, telegraph traffic carried by the Group decreased from around 262 million to around 213 million equated words per annum and turnover decreased from around £13 million to around £9 million per annum.

Leased circuits. Cable and Wireless leases to users who require them circuits which are continuously available for their exclusive use, and rents to them associated equipment such as teleprinters. Users may require leased circuits for teleprinter-to-teleprinter message transmission, for voice usage, for high-speed data communication or for a number of other applications. Cable and Wireless can provide large users, such as airlines and banks, with international networks of leased circuits radiating from its switching centres such as those in Hong Kong and Bahrain, which enable their branches to be continuously in touch with each other and with their headquarters. Over the seven years to 31st March, 1981, the Group's turnover from leased circuits and the rental of associated equipment increased from around £6 million to around £21 million per annum.

Facsimile services. Cable and Wireless provides facilities in its most important operating areas for the facsimile transmission of material such as typescript, drawings, graphics or computer print-outs. Facsimile transmission uses telephone circuits and it is not possible to show separately the volume of facsimile traffic carried by Cable and Wireless.

Ship-shore communications. In certain locations, Cable and Wireless provides facilities for ship-shore communications.

International television transmission. In certain locations, Cable and Wireless provides circuits to carry television transmissions between countries.

Management services. The Company also provides management services to other telecommunications organisations in return for a management fee. In Botswana, for example, the Company manages the internal and external telecommunications for the Government of Botswana.

Cableship services. Outside its franchise business, but supporting the franchise operations, the Company owns and operates a fleet of five cableships. These are employed in the laying and maintenance of submarine cables and their operations are described more fully under "Business regions" below.

Over the seven years to 31st March, 1981 the turnover of the Group attributable to the franchise business increased from around £67 million to around £189 million per annum.

Non-franchise business

Project contracting and consultancy. The Group offers a wide range of services for the provision of telecommunications systems. The services it offers as contractor or project consultant include the design, planning, procurement, installation, commissioning and maintenance of systems, and it can also train the customer's personnel to operate the systems provided. The Group has concentrated on certain categories of customer, including governments, oil and other energy concerns, airport authorities and airlines, banks, brokers, shipping companies and press agencies. The largest single contract that it has been awarded is for the provision of a complete telecommunications system for the Saudi Arabian National Guard, including the training of Saudi Arabian staff to operate the system. Examples of other current contracts are the provision of the telecommunications and navigational aid systems at Queen Alia Airport in Amman, Jordan, and acting as supervising consultant to the Nigerian internal telecommunications authority for the upgrading of its transmission system; concurrently, the Group is also engaged on a telex switching project for the Nigerian external telecommunications authority.

Sales, leasing and maintenance. The Group sells and leases out telecommunications and computer equipment, such as teleprinters, microcomputers and peripherals, in the United Kingdom, continental Europe, South America and the United States. The Group acts as a distributor on behalf of manufacturers of telecommunications equipment. It also offers maintenance services for equipment sold or leased out by it and for a wide range of equipment supplied by others, ranging from data terminals to air traffic control systems.

Other services. In the United States, which is a relatively unrestricted telecommunications market, the Company's subsidiaries are able to offer a range of services including resale carrier services and least-cost routing of long-distance telephone calls.

The Group operates in most of the major telecommunications markets of the world, and this improves its ability to offer services to multinational companies requiring compatible systems for their operations.

Over the seven years to 31st March, 1981, the turnover of the Group attributable to the non-franchise business increased from around £5 million to around £104 million per annum.

Business regions

To illustrate the geographical spread of the Group's operations, the table below shows on a pro forma basis for the year ended 31st March, 1981 Group turnover and profit, before unallocated central corporate expenses, interest and taxation, attributable to the main business regions. As explained in the notes below the table, the figures are not in accordance with the Group's normal accounting policies since they have been adjusted to show the position as if the new arrangements in Hong Kong and Bahrain had been in effect throughout the year and to reflect the Group's present proportionate interest in both the turnover and profit of these two operations. The pro forma profit shown is after charging to the business regions those costs incurred by the central departments which can be allocated on the geographical basis that will apply under the new Group structure, referred to under "Organisation, Directors and employees" below. Those central corporate expenses which have not been allocated amounted in the year ended 31st March, 1981 to £14.9 million and included approximately £8 million of the total provision of £10 million against future staff redundancy payments and unfunded terminal gratuities which is referred to under "Past profits" below.

Year ended 31st March, 1981 £000s	Pro forma Turnover	Profit (Loss)
Far East and South Pacific	78,397	39,319
Middle East and Africa	34,562	6,582
Bermuda, Caribbean and Central and South America	29,762	8,161
Atlantic and Indian Oceans	6,851	493
Europe, including central projects and cableships	89,581	4,346
United States of America	15,642	(899)
Sundry income, excluding interest	—	4,551
Total pro forma turnover and profit before unallocated central corporate expenses, interest and taxation.	254,795	62,553

Notes:

1. The figures for Far East and South Pacific have been adjusted to reflect the Group's 80 per cent. interest in both turnover and profit of the new company, Cable and Wireless (Hong Kong), and the figures for Middle East and Africa have been adjusted to reflect the Group's 40 per cent. interest in both turnover and profit of the new company, Bahrain Telecommunications, in both cases as if the new arrangements had been in effect throughout the year. No adjustment has been made for interest on the proceeds of the sale of part of the Company's interests in Hong Kong and Bahrain or on the related tax liabilities.
2. As explained in Note 1 above, the proportion of turnover and profit attributable to the Group from its 80 per cent. interest in Cable and Wireless (Hong Kong) and its 40 per cent. interest in Bahrain Telecommunications is shown on a pro forma basis. Following the Group's normal accounting policies, the turnover and profit of other subsidiaries are shown in full, while no part of the turnover of other associated companies is shown, only the attributable profit.

Far East and South Pacific

Year ended 31st March, 1981 £000s	Pro forma Turnover	Profit
Hong Kong	74,641	37,301
Other Far East and South Pacific	3,756	2,018
Total	78,397	39,319

Middle East and Africa

Year ended 31st March, 1981 £000s	Pro forma Turnover	Profit (Loss)
Bahrain	13,866	4,369
Yemen Arab Republic	4,698	(3,536)
Other Middle East and Africa	15,998	5,749
Total	34,562	6,582

Bermuda, Caribbean and Central and South America

Year ended 31st March, 1981 £000s	Turnover	Profit (Loss)
Bermuda and the Cayman Islands	10,716	3,814
Eastern Caribbean	12,756	4,769
Central and South America	6,290	(422)
Total	29,762	8,161

Atlantic and Indian Oceans

Year ended 31st March, 1981 £000s	Turnover	Profit
Atlantic and Indian Oceans	6,851	493

Europe, including central projects and cableships

Year ended 31st March, 1981 £000s	Turnover	Profit (Loss)
Central projects and cableships	77,034	4,986
Other European business	12,547	(640)
Total	89,581	4,346

United States of America

Year ended 31st March, 1981 £000s	Turnover	(Loss)
Cable & Wireless North America, Inc.	15,642	(899)

Cable and Wireless

CONTINUED OVERLEAF

CONTINUED

Cable and Wireless

Employees

The Group has approximately 10,000 employees, of whom approximately 8,000 are employed overseas. Approximately 2,650 of these are employed by Cable and Wireless (Hong Kong).

The devolvement of responsibility on branches and subsidiaries referred to under "Organisation" above will be accompanied by some increase in staff numbers overseas. It is expected that the cost of this will in a few years be more than offset by the savings that will result from a reduction in the number of employees in the United Kingdom. The Directors intend that a significant reduction in the number of employees in the United Kingdom should take place over a period of three years, and the subject is being discussed with staff and with the trade unions concerned. A provision for redundancy costs has been made in the Group's accounts for the year ended 31st March, 1981.

Much of the senior management of the Group's overseas franchise operations is provided by the Company's foreign service staff, who are predominantly British and typically serve a tour of duty of two to three years in a particular location. Although the number of senior overseas management jobs filled by national staff is increasing, and it is the Group's policy to encourage this, the Directors regard the part played by the experienced and mobile British staff overseas as an important strength of the Group.

Approximately 63 per cent. of the Company's Head Office employees are members of trade unions. In overseas branches and subsidiaries, trade union representation depends on local conditions and on local legislation. The Directors consider that industrial relations within the Group are good.

Approximately 4,100 employees are members of the Company's Superannuation Fund (the "Fund"). Pensions payable under the Fund are based on final salary and increases at the rate of 3 per cent. per annum are guaranteed, the Company and the Trustees review this annually and have discretion to grant additional increases. An actuarial valuation of the Fund as at 31st March, 1981 showed that the assets of the Fund were sufficient at that date to cover its accrued liabilities both on a discontinuance basis and also on an accrued current rights basis.

As from 1st October, 1981 some 1,600 Hong Kong pensionable staff were transferred to a new pension scheme which had been formed by Cable and Wireless (Hong Kong), to whose employ they had transferred. An appropriate proportion of the assets of the Fund has been transferred to that scheme.

The Group also has an insured scheme covering 160 employees and, in addition, it provides for the full potential liability in respect of the terminal gratuities which are payable in some territories. It also contributes to certain state schemes which the Group's staff outside the United Kingdom are obliged to join.

Relationship with HM Government

The following is the text of a letter from HM Government to the Chairman of the Company dated 20th October, 1981 regarding the future relationship between HM Government and the Company:

"Following the Offer for Sale, HM Government will have a shareholding of just over 50.53 per cent. of the issued share capital of the Company and has agreed to transfer over a period of not less than five years a maximum of approximately 0.53 per cent. of such issued share capital to the Trustees of the Group's Employee Share Schemes. The amount transferred in any one year will be subject to the level of Group profit. After deducting the shares so committed, HM Government will have a shareholding of 50 per cent. of the issued share capital plus one Ordinary Share. HM Government, which is empowered under the British Telecommunications Act 1981 to acquire or dispose of shares in the Company at any time, intends to maintain a majority shareholding for the foreseeable future.

"HM Government does not intend to use its rights as a shareholder to intervene in the Company's commercial decisions. Nor does it expect to vote its shareholding at general meetings of the Company in opposition to resolutions supported by a majority of the Court of Directors, although it retains the right to do so.

"Under the Company's Articles of Association, HM Government has the right to nominate or appoint two non-executive Directors to the Court and HM Government has now nominated Mr. Alan E. Wheatley as a Government Director. A Government Director has no special powers and his duties, like those of all Directors, are to the Company as a whole."

HM Government's intention to maintain a majority shareholding for the foreseeable future may in certain circumstances inhibit the Company from issuing new shares.

Further details of the provisions of the Articles of Association relating to Government Directors are set out in paragraph (ii) (b) of Appendix VI.

Limitations on shareholdings

In the light of the Group's relationships with overseas governments and with customers, HM Government and the Court of Directors believe that the commercial interests of the Group would be best served by a provision in the Articles of Association of the Company to prevent undue influence in the affairs of the Group being exercised as a result of a substantial interest being held in the shares of the Company. Accordingly, the Articles of Association contain a provision to prevent any person (other than HM Government), on his own or acting in concert with other persons, from owning more than 15 per cent. of the issued shares which ordinarily carry the right to vote at general meetings or controlling more than 15 per cent. of such votes. The restriction on parties acting in concert does not apply to members of the British Insurance Association or National Association of Pension Funds, or of similar bodies approved by the Directors, by reason solely of their membership or of their acting in accordance with the recommendation of any such body. Further details relating to this provision are set out in paragraph (ii) (d) of Appendix VI.

Past profits

General

There is set out below a summary, which has been extracted from the Accountants' Report, of the results of the Group under the historical cost convention for the seven years to 31st March, 1981.

Year ended 31st March £ million	1975	1976	1977	1978	1979	1980	1981
Turnover	71.8	104.6	157.7	177.3	206.5	254.8	293.0
Profit before taxation	21.5	31.5	60.9	55.4	59.5	61.0	62.0
Taxation	5.7	8.4	24.3	17.5	23.9	18.7	23.0
Profit after taxation	15.8	23.1	36.6	37.9	35.6	42.3	39.0
Minority shareholders' interests	—	—	—	—	—	0.3	0.4
Profit after taxation and minority shareholders' interests and before extraordinary item	15.8	23.1	36.6	37.9	35.6	42.0	38.6
Extraordinary item—taxation on balancing charges	—	—	—	—	—	—	(68.0)

From the year ended 31st March, 1975 to that ended 31st March, 1981 Group turnover quadrupled and Group profit before taxation almost trebled. For the reasons explained below, nearly all of this growth in profit arose during the early part of the period.

Fluctuations in currency exchange rates had a major effect on Group results. Profit expressed in sterling tends to benefit if sterling weakens in relation to the foreign currencies in which turnover arises, and vice versa. The effect on the Group tends to be disproportionate because, although Group turnover arises almost entirely outside the United Kingdom, a significant proportion of Group costs, principally staff and accommodation costs, is incurred in the United Kingdom. In the first three years of the period, Group profit benefited from the weakening of sterling and, in the last four years of the period, was held back by the strengthening of sterling.

The Group benefited over the period from the availability of United Kingdom taxation allowances on capital expenditure in its branches overseas. The taxation charge from year to year was affected by the level of capital expenditure and by the timing of tax relief on certain other expenditure. In the year ended 31st March, 1979 the effective rate of taxation was increased by unrelieved overseas losses.

Group profit before taxation for the year ended 31st March, 1981 was arrived at after a provision against trading profit of £10 million for future staff redundancy payments and unfunded terminal gratuities and after crediting to other income a profit of £6 million arising from the sale of the Company's remaining shareholding in an overseas telecommunications company. In addition, there was charged as an extraordinary item the sum of £68 million, being a provision for United Kingdom corporation tax in respect of balancing charges on assets transferred as part of the reorganisation of the operations in Hong Kong and Bahrain. The surplus relating to the new arrangements in Hong Kong and Bahrain, which is estimated to be approximately £50 million, will be shown as an extraordinary item in the accounts for the year ending 31st March, 1982.

Franchise business

Taking the period as a whole, Group profit largely reflected the profit of the franchise business, which increased significantly in the early part of the period and levelled off thereafter.

The volume of traffic carried rose very substantially throughout the period, as the principal economies served by the Group expanded and developed. The main components of this growth in traffic were international telephone and telex traffic.

Over the three years to 31st March, 1977, in addition to the effect of increased traffic volumes, the declining value of sterling substantially increased Group profit. In the year ended 31st March, 1978, Group profit was affected by the loss of some franchises, particularly that in the United Arab Emirates, and by the increase in the value of sterling. Group profit from the franchise business levelled off in the last two years of the period, after a rise in the year ended 31st March, 1979. This levelling off at a time of continuing traffic growth was to a significant extent the result of the increase in the value of sterling and of rapidly increasing staff costs following a period of wage restraint in the United Kingdom. In the year ended 31st March, 1981, the growth in profit was also held back by reductions in tariffs, principally in Hong Kong where telephone tariffs were reduced, and by the increased share of international telephone revenue due to Hong Kong Telephone *Company, as referred to in "Business regions" above.*

Of the different territories in which the Group operates, Hong Kong made by far the largest contribution to Group profit throughout the period. The rate of growth in traffic volume in Hong Kong was strong but was not matched by the growth of profit in local currency, since operating costs rose proportionately faster than turnover. The growth of turnover was slowed by a reduction in telex tariffs in the year ended 31st March, 1978, by a change to smaller units of charging for telex tariffs in the year ended 31st March, 1980 and, as mentioned above, by a reduction in telephone tariffs and the increase in the share of international telephone revenue due to Hong Kong Telephone Company in the year ended 31st March, 1981.

In Bahrain, the second largest contributor to Group profit in recent years, turnover and profit in local currency grew over the period. In the rest of the Middle East, the adverse effect on turnover and profit of the acquisition of the Group's operations in the United Arab Emirates by the governments concerned was largely offset by growth in the Group's operations elsewhere in the region, excluding Yemen Arab Republic where results have deteriorated. In Bermuda and the Caribbean, where the other principal franchise operations are situated, turnover and profit increased satisfactorily, taking the period as a whole. The cableships made a small but improving profit over the period.

Non-franchise business

The principal subsidiaries acquired in the United States encountered trading difficulties which resulted in significant losses in relation to the size of these companies in the year ended 31st March, 1979. The results of the United States subsidiaries have since improved and, taken together, they are currently breaking even in terms of local currency, before interest and the allocation of central overheads. The subsidiaries in the Far East have been profitable throughout the period. The subsidiaries in Europe and South America, taken together, made losses during the period as a whole and, although their results have generally improved, their combined effect on Group profit in the year ended 31st March, 1981 was insignificant.

The work being carried out for the Saudi Arabian National Guard has in recent years contributed significantly to the results of the non-franchise business. Elsewhere, the projects business made a small contribution to Group profit in the year ended 31st March, 1981.

The non-franchise business, taken as a whole, made a small profit in the year ended 31st March, 1981.

Current cost profit

The Court of Directors has for many years recognised the important effects that inflation can have on the results of a business with a high level of capital investment and in the published profit and loss accounts for the periods between 1st January, 1947 and 31st March, 1980 there was included a supplementary depreciation charge for the increased cost of replacement of fixed assets.

In view of the introduction of the standard for current cost accounting, accounts in accordance with Statement of Standard Accounting Practice No. 16 have been prepared for the Group in respect of the year ended 31st March, 1981 and are included in the Accountants' Report. These show a profit before taxation of £52.0 million. The major difference between this amount and the profit of £62.0 million under the historical cost convention arises from the additional charge for depreciation.

Restated net assets, proceeds of issue of new shares and working capital

The net assets attributable to Ordinary shareholders of the Company by reference to the Group's historical cost accounts as at 31st March, 1981, adjusted for the estimated surplus arising on the new arrangements in Hong Kong and Bahrain and for the issue of additional share capital under the Offer for Sale, amounted to £307 million. The net assets attributable to Ordinary shareholders by reference to the Group's current cost accounts as at the same date, adjusted in a similar way, amounted to £406 million.

Having regard to the Group's planned level of investment in its existing operations, to its commitment towards the development of the telecommunications of Macau and, if the project proceeds, to the requirements for establishing the Mercury network for the United Kingdom, the Directors anticipate that there will be substantial expenditure on new property, plant and equipment over the next few years.

After deducting such expenses of the Offer for Sale as are payable by the Company, the issue of new Ordinary Shares under the Offer for Sale will raise approximately £34.5 million for the Group.

In addition, the Group has available to it the equivalent, at current rates of exchange, of approximately £125 million of medium-term multi-currency facilities and a substantial amount of short-term bank facilities.

The Directors consider that, having regard to the additional share capital being issued and to the facilities referred to above, the Group has sufficient working capital for its present requirements.

Cable and Wireless

Cable and Wireless

Historical cost accounts

Profit and loss accounts

	Note	1975	1976	1977	1978	1979	1980	1981
		Years ended 31st March						
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	1	71,807	104,595	157,706	177,301	206,521	254,760	292,994
Expenditure	2	55,071	78,157	103,091	125,926	154,614	189,845	241,045
Trading profit		16,736	26,438	54,615	51,375	51,907	64,815	51,949
Other income	3	2,564	2,263	3,421	2,085	5,245	2,811	6,204
Share of profits less losses of associated companies	4	2,136	2,758	2,878	1,965	2,290	3,390	3,894
Profit before taxation		21,436	31,459	60,914	55,425	59,442	61,016	62,047
Taxation	5	5,658	8,331	24,276	17,502	23,903	18,732	23,062
Profit after taxation and before extraordinary item		15,778	23,128	36,638	37,923	35,539	42,284	38,985
Minority shareholders' interests		—	—	48	32	(41)	290	336
Profit after taxation and minority shareholders' interests and before extraordinary item		15,778	23,128	36,590	37,891	35,580	41,994	38,649
Extraordinary item—taxation	6	—	—	—	—	—	—	(68,000)
Profit (loss) attributable to shareholders		15,778	23,128	36,590	37,891	35,580	41,994	(29,351)
Dividends	7	2,145	2,730	6,600	7,000	7,500	10,500	12,500
Retained profit (loss)		13,633	20,398	29,990	30,891	28,080	31,494	(41,851)

Balance sheets

The Company 31st March, 1981 £'000	£'000		Note	The Group 31st March, 1981 £'000	£'000	Pro forma Group (Note 22) 31st March, 1981 £'000	£'000
	235,572	Fixed assets	8		289,395		202,515
	39,115	Interests in subsidiaries	9		—		—
	7,350	Investments	10		20,129		49,402
		Current assets					
13,849		Stocks and work in progress	11	25,333		22,045	
93,646		Debtors	12	113,344		104,577	
—		Short term deposits		1,725		1,725	
14,072		Bank balances and cash		19,504		176,720	
121,567				159,906		305,067	
		Current liabilities					
64,503		Creditors		75,684		72,259	
12,669		Bank loans and overdrafts		13,669		3,669	
27,507		Taxation		32,958		32,958	
10,000		Dividend		10,000		10,000	
114,679				132,311		118,886	
	6,888	Net current assets			27,595		186,181
	288,925				337,119		438,098
19,696		Less: Medium term loans	13	20,656		20,656	
28,770		Provisions	14	28,416		28,416	
61,016		Deferred taxation	15	63,115		63,115	
		Minority shareholders' interests		2,751		18,730	
	109,482				114,938		130,917
	179,443	Net tangible assets			222,181		307,181
		Representing:					
	100,000	Share capital	16		100,000		135,000
	79,443	Reserves	17		122,181		172,181
	179,443				222,181		307,181

Source and application of funds

	1975	1976	1977	1978	1979	1980	1981
	Years ended 31st March						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
SOURCE OF FUNDS:							
Profit before taxation	21,436	31,459	60,914	55,425	59,442	61,016	62,047
Less: Minority shareholders' interests	—	—	(48)	(32)	41	(290)	(336)
	21,436	31,459	60,866	55,393	59,483	60,726	61,711
Adjustments for items not involving the movement of funds:							
Depreciation	7,232	9,709	11,602	15,494	17,432	22,800	24,643
Increase (decrease) in provisions	(308)	2,130	2,529	(771)	1,930	2,985	13,186
Profit retained in associated companies	(60)	(523)	(832)	(490)	(123)	(1,172)	(1,663)
Funds generated from operations	28,300	42,775	74,165	69,826	78,722	85,339	97,877
Funds from other sources:							
Minority shareholders' interests	—	—	560	618	178	735	560
Sale of fixed assets	1,812	1,947	10,023	3,548	3,480	4,157	1,693
Medium term loans	—	—	2,287	—	4,774	11,317	7,182
	30,112	44,722	87,035	73,792	87,154	101,548	107,412
APPLICATION OF FUNDS:							
Dividends paid	1,809	2,145	2,730	6,600	4,500	10,000	13,000
Taxation	4,372	7,214	10,226	22,429	16,333	23,728	18,944
Purchase of fixed assets	14,553	27,401	36,067	51,399	47,132	65,895	79,729
Net increase (decrease) in investments	1,611	1,690	804	(2,124)	(2,649)	615	(246)
Purchase of goodwill on the acquisition of subsidiaries	87	—	—	11,222	1,098	44	440
Repayment of medium term loans	2,619	1,344	4,737	1,690	1,089	954	3,083
Increase (decrease) in working capital:							
Stocks	1,389	3,386	2,037	3,014	4,379	1,743	4,968
Debtors	11,261	12,661	23,867	3,262	15,833	14,873	4,297
Creditors	(9,193)	(3,705)	(10,574)	(12,437)	(6,086)	(9,208)	(9,473)
	28,608	52,136	69,894	85,055	79,619	108,441	114,742
Increase (decrease) in net liquid funds	1,504	(7,414)	17,141	(11,263)	7,535	(6,893)	(7,330)
Bank balances and cash	3,623	(2,830)	5,840	(831)	3,778	7,057	(1,414)
Short term deposits and listed investments	(100)	(4,874)	14,856	(8,073)	1,126	(9,273)	(3,497)
Short term borrowings	(2,019)	90	(3,555)	(2,359)	2,631	(4,677)	(2,419)
	1,504	(7,414)	17,141	(11,263)	7,535	(6,893)	(7,330)

Accounting policies

The following are the principal accounting policies adopted in arriving at the financial information set out under the heading "Historical cost accounts".

(a) Accounting convention
The accounts are drawn up under the historical cost convention modified by the revaluation of certain land and buildings as at 31st March, 1981 on the basis set out in note 8.

(b) Basis of consolidation
The annual accounts of the Company and of all its subsidiaries have been made up to 31st March each year.
The consolidated accounts include the results and assets and liabilities of the Company and all subsidiaries for the relevant periods since incorporation or acquisition. Subsidiaries acquired are consolidated from the date of acquisition. The surplus of cost over fair values attributed to the assets acquired is charged to reserves.

(c) Associated companies
The consolidated accounts include the Group's share of results of associated companies for the relevant periods ended 31st March from the date of acquisition of each investment.

(d) Overseas currencies
Profit and loss accounts and assets and liabilities in foreign currencies are translated into sterling on the following bases:
(i) Fixed assets and depreciation thereon, trade investments and shares in subsidiary companies together with certain stocks are translated at rates ruling when purchased.
(ii) Interests in associated companies are translated at rates ruling at 31st March, except that the cost of the original equity investment is translated at rates ruling when purchased.
(iii) All other assets and liabilities are translated at rates ruling at 31st March.
(iv) All other items in the profit and loss accounts are translated at average rates ruling during the year.
All gains and losses on foreign currencies are included in the profit before taxation.

(e) Fixed assets and depreciation
Depreciation of fixed assets is set aside on the basis of providing for the cost in equal annual instalments over the estimated useful lives of these assets, namely:

Telephone cables and repeaters	20 years
Landlines	20 to 40 years
Freehold buildings	40 years
Leasehold land and buildings	40 years or term of lease if less
Plant	5 to 20 years
Cableships	Generally 25 years

Freehold land, where the cost is distinguishable from the cost of the building thereon, is not depreciated. Certain non-specialised land and buildings are included at 31st March, 1981 at open market value for existing use.

(f) Deferred taxation
Provision is made for deferred taxation, using the liability method, only when there is a reasonable probability that the liability will arise within the foreseeable future.

(g) Profit on turnkey projects
Profit on contracts for turnkey projects is taken on completion of the contract if its duration is less than one year. For contracts which extend for more than one year, an appropriate proportion of the profit is recognised and the balance taken on completion. Full provision is made for anticipated losses.

(h) Stocks and work in progress
(i) Stocks of equipment held for use in the maintenance and expansion of the Group's telecommunications system are stated at cost, including appropriate overheads, less provision for deterioration and obsolescence.
(ii) Stocks held for resale or leasing are stated at the lower of cost and net realisable value.
(iii) Work in progress on turnkey projects is stated at cost plus attributable profits (less foreseeable losses), less progress payments receivable, any excess being included in creditors.

Notes

1. Turnover
Turnover arises from:
(a) net revenue from the Group's franchise business after payment to other telecommunication carriers and administrations; and
(b) revenue from the Group's non-franchise business derived from the proceeds of sales, rental of equipment, consultancy fees earned, the proceeds of short-term turnkey projects completed in the year and the estimated sales value of work done during the year on long-term turnkey projects.
In determining revenue from the franchise business earned throughout the world there is an inherent level of estimating. However, adjustments made in respect of estimates for previous years have not had a material effect on profits.

Turnover comprises:	1975	1976	1977	1978	1979	1980	1981
	Years ended 31st March						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Franchise business: Gross revenue	105,718	134,957	202,160	228,286	258,959	270,100	294,960
Less: Amounts payable	38,481	40,794	62,313	80,037	95,052	93,325	106,105
	67,237	94,163	139,847	148,249	163,907	176,775	188,855
Non-franchise business	4,570	10,432	17,859	29,052	42,614	77,985	104,139
	71,807	104,595	157,706	177,301	206,521	254,760	292,994

2. Expenditure
Expenditure includes the following charges:

	1975	1976	1977	1978	1979	1980	1981
	Years ended 31st March						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Depreciation	7,232	9,709	11,602	15,494	17,432	22,800	24,643
Provision for staff redundancy payments and unfunded terminal gratuities	—	—	—	—	—	—	10,000
Special contributions to pension fund (note 18)	2,041	2,396	4,540	4,440	5,940	1,020	—

3. Other income

	1975	1976	1977	1978	1979	1980	1981
	Years ended 31st March						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade investments	553	543	521	1,049	1,195	1,129	1,437
Deposit and short term loan interest	1,614	1,034	2,283	1,422	1,594	3,131	2,247
Listed investments	74	59	124	727	23	—	—
Surplus on sale of fixed assets	1,766	797	1,164	173	875	(31)	380
Surplus on sale of investments	—	633	283	438	2,631	77	5,972
	4,007	3,126	4,375	3,809	6,318	4,306	10,036
Less: Interest payable	1,443	863	777	750	1,073	1,495	3,832
Amounts written off trade investments	—	—	177	974	—	—	—
	2,564	2,263	3,421	2,085	5,245	2,811	6,204

4. Share of profits less losses of associated companies
The results of associated companies are consolidated on the basis of the latest audited accounts received. Where audited accounts are not available the latest management information has been used.

5. Taxation

	1975	1976	1977	1978	1979	1980	1981
	Years ended 31st March						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
U.K. corporation tax at 52 per cent.	6,136	6,876	24,454	15,669	20,626	16,660	25,088
Less: Double taxation relief	2,711	3,314	8,950	7,395	8,323	7,287	9,275
	3,425	3,562	15,504	8,274	12,303	9,373	15,813
Deferred tax	(318)	364	(2,111)	1,450	834	(166)	(3,051)
Overseas tax	2,693	3,433	9,048	8,402	8,446	9,585	9,377
Associated companies	545	1,021	969	814	1,045	1,245	1,302
Prior year adjustments	(687)	(49)	866	(1,438)	1,275	(1,305)	(379)
	5,658	8,331	24,276	17,502	23,903	18,732	23,062
If deferred tax had been fully provided under the liability method the tax charge would have increased as follows:	4,978	10,131	9,443	14,292	12,190	9,763	8,120

6. Extraordinary item
The amount of £68,000,000 in the year ended 31st March, 1981 is a provision for taxation on balancing charges on assets transferred on the subsequent reorganisation of the Group in Hong Kong and Bahrain (see note 22).

7. Dividends
The dividend for the year ended 31st March, 1979 included a supplementary dividend in respect of the year ended 31st March, 1978 and this has been shown as an addition to the dividend of the year to 31st March, 1978.

8. Fixed assets

The Company: Cost or valuation £'000	Accumulated depreciation £'000	Net book value £'000		The Group: Cost or valuation £'000	Accumulated depreciation £'000	Net book value £'000
6,254	6,254	—	Telegraph cables	15,114	15,114	—
41,299	15,005	26,294	Telephone cables and repeaters	42,800	15,767	27,033
595	126	469	Landlines	661	134	527
27,199	1,580	25,619	Freehold land and buildings	51,217	2,829	48,388
32,558	1,256	31,302	Long leasehold buildings	33,204	1,311	31,893
13,782	3,012	10,770	Short leasehold buildings	14,481	3,400	11,081
196,953	64,254	132,699	Plant	257,490	95,436	162,054
16,378	7,959	8,419	Cableships	16,378	7,959	8,419
335,018	99,446	235,572		431,345	141,950	289,395

Certain non-specialised land and buildings were valued on 31st March, 1981 at open market value for existing use and these valuations aggregating £41,977,000 (the Company £22,963,000) have been incorporated in the accounts. Of these, valuations amounting to £24,112,000 (the Company £5,098,000) were carried out by Messrs. Hillier Parker May & Rowden, Chartered Surveyors, and valuations amounting to £17,865,000 (the Company £17,865,000) were carried out by Messrs. Jones Lang Wootton, Surveyors. The other fixed assets are included at cost less depreciation.

9. Interests in subsidiaries

	The Company £'000
Shares at cost, less amounts written off	22,500
Advances to and amounts due from subsidiaries	41,407
	63,907
Advances from and amounts due to subsidiaries	24,792
	39,115

10. Investments

The Company £'000		The Group £'000
	Associated companies	
—	Share of net assets	10,082
378	Unlisted shares	—
140	Loans	1,173
—	Loans to other shareholders	1,698
518		12,953
	Trade investments	
1	Listed shares at cost (market value £5,000)	1
97	Unlisted shares at cost, less amounts written off	97
498	Interest in partnership with foreign government	498
6,236	Interests in international telecommunications satellite organisations at cost	6,580
7,350		20,129

11. Stocks and work in progress

The Company £'000		The Group £'000
121,495	Turnkey project work in progress at cost, plus attributable profit, less provisions for anticipated losses	121,495
(114,489)	Progress payments in respect of turnkey project work in progress	(114,489)
7,006		7,006
4,741	Stocks for expansion of the Group's telecommunications systems	6,422
351	Stocks for resale or leasing	9,836
1,751	Consumable stores	2,069
13,849		25,333

12. Debtors
Debtors in the Group balance sheet include loans of £1,816,000 receivable over a scheduled period of approximately fourteen years.

13. Medium term loans

The Company £'000		The Group £'000
473	Hong Kong $5.6 million repayable on an annuity basis up to 1986, bearing interest at 5 per cent.	473
—	Solomon Island $588,000 repayable on or before 1988, bearing interest at 11 per cent.	304
1,081	Liability under a sterling facility, repayable in equal annual amounts up to 1984, bearing interest at 8¾ per cent.	1,081
3,229	Liability under a sterling facility, repayable in equal annual amounts up to 1986, bearing interest at 7¼ per cent.	3,229
1,527	Liability under a U.S. dollar facility, repayable in equal annual amounts up to 1988, bearing interest at 7½ per cent.	1,527
9,401	Bahrain dinars 8 million repayable in equal annual amounts up to 1986, bearing interest at Bahrain Monetary Agency Rate plus 1 per cent.	9,401
618	Liability under a U.S. dollar facility, repayable in equal annual amounts up to 1988, bearing interest at 7¼ per cent.	618
6,009	Hong Kong $71.6 million repayable on an annuity basis up to 1990, bearing interest at 10 per cent.	6,009
—	Bahrain dinars 360,000 repayable on an annuity basis up to 1985, bearing interest at 10½ per cent.	422
—	Hong Kong $4 million repayable on an annuity basis up to 1986, bearing interest at 12 per cent.	336
22,338		23,400
2,642	Less: Amounts repayable within one year included in current liabilities	2,744
19,696		20,656
	Loans or instalments thereof are repayable within periods from 31st March, 1981 of:	
3,628	From one to two years	3,769
13,129	From two to five years	13,644
2,939	Over five years	3,243
19,696		20,656

14. Provisions
Provisions at 31st March, 1981 comprise redundancy payments, unfunded terminal gratuities and pensions, possible adjustments under the Commonwealth Telecommunications Organisation Financial Agreement (see note 19) and periodic overhauls of cableships.

15. Deferred taxation
The amount provided for deferred taxation is:—

The Company £'000		The Group £'000
68,810	Accelerated capital allowances	70,819
(3,505)	Short term timing differences	(3,418)
(4,286)	Advance corporation tax	(4,286)
61,016		63,115

The full potential liability for deferred taxation at 31st March, 1981 was:—

The Company £'000		The Group £'000
85,104	Accelerated capital allowances	95,468
6,641	Revaluation of land and buildings	10,681
(9,884)	Short term timing differences	(9,877)
(4,286)	Advance corporation tax	(4,286)
77,575		91,986

16. Share capital
The authorised, issued and fully paid share capital of the Company at 31st March, 1981 comprised 100,000,000 Ordinary Shares of £1 each.

17. Reserves
Retained profits (losses) of the Group and other movements on reserves of the Group are:—

	1975	1976	1977	1978	1979	1980	1981
	Years ended 31st March						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reserves at beginning of year	57,891	71,437	91,835	91,825	111,494	138,476	129,926
Retained profits (losses)	13,633	20,398	29,990	30,891	28,080	31,494	(41,851)
Goodwill arising in respect of subsidiary companies acquired	(87)	—	—	(11,222)	(1,098)	(44)	(440)
Surplus on revaluation of land and buildings	—	—	—	—	—	—	34,546
Amounts capitalised and applied in paying up in full bonus issues of shares	—	—	(30,000)	—	—	(40,000)	—
Reserves at end of year	71,437	91,835	91,825	111,494	138,476	129,926	122,181

18. Pension schemes
Retirement benefits for Group staff derive from the following sources according to the designation and location of employment:
(a) Group contributory pension funds approved by the Inland Revenue;
(b) national schemes in certain territories; and
(c) terminal benefits to those staff not covered by either of the former sources.
The actuarial valuation of the approved pension funds is carried out every three years. The valuation at 31st March, 1975 disclosed a deficiency which the Company met by special annual contributions during the five years ended 31st March, 1979; these are shown in note 2 together with a further contribution of £1,500,000 in the year ended 31st March, 1979 at which time the actuarial valuation at 31st March, 1978 had not been received. Following this valuation the Company increased its annual contributions.
The actuarial valuation as at 31st March, 1981 showed that accrued liabilities were adequately funded on both a discontinuance basis and an accrued current rights basis.

19. Commonwealth Telecommunications Organisation Financial Agreement 1973 ("CTFA")
A substantial proportion of the Group's operations is subject to the rules of the CTFA which specify the arrangements for sharing costs amongst the participants. The current agreement came into force on 1st April, 1973 and final settlements have been made for the years ended 31st March, 1974, 1975 and 1976. No final settlements have been reached for any subsequent year. Provisions which totalled £9,897,000 at 31st March, 1981 have been set aside against possible further adjustments that may arise on final settlements.

20. Future capital expenditure
Commitments for future capital expenditure at 31st March, 1981 were:

The Company £'000		The Group £'000
34,589	Commitments in respect of contracts placed	38,342
59,297	Amounts authorised in addition to commitments	61,177
93,886		99,519

21. Contingent liabilities

The Company £'000		The Group £'000
8,315	Contingent liabilities at 31st March, 1981 in respect of trading guarantees	7,226

22. Post balance sheet events
Subsequently to 31st March, 1981 it was agreed that new companies incorporated in Bahrain and Hong Kong should acquire the Group's franchise operations in those territories with effect from 1st July, 1981 and 1st October, 1981 respectively. The Group holds 40 per cent. of the equity capital in the Bahrain company and 80 per cent. of the equity capital in the Hong Kong company.
Adjustments reflecting the estimated effect of these transactions have been applied to the balance sheet of the Group at 31st March, 1981 to arrive at the pro forma Group balance sheet. These are:
(a) the sale of the business of the Company's former Bahrain branch to the new company and the Group's subscription for its 40 per cent. shareholding which is shown as an associated company investment;
(b) the transfer of the business of the Company's former Hong Kong branch to the new company and the sale of a 20 per cent. holding in that company to the Hong Kong Government; and
(c) the Directors' estimate of the surplus arising on these transactions, after deducting a provision for expenses and tax.
As referred to in note 6 provision was made in the accounts for the year ended 31st March, 1981 for certain related tax liabilities.
The pro forma Group balance sheet reflects the net proceeds of the proposed issue of 70,000,000 Ordinary Shares of 50p each at par.

23. Audited accounts
No audited accounts have been prepared in respect of any period after 31st March, 1981.

Current cost accounts

Profit and loss account for the year ended 31st March, 1981

	Note	£'000	£'000
Turnover			292,994
Trading profit on the historical cost basis			51,949
Current cost operating adjustments	5		(10,616)
Current cost trading profit			41,333
Interest paid (net)		1,585	
Gearing adjustment	4	1,557	(28)
			41,305
Other income			7,789
Share of profits less losses of associated companies			2,928
Current cost profit before taxation			52,022
Taxation			23,062
			28,960
Minority shareholders' interests			345
Current cost profit after taxation and minority shareholders' interests and before extraordinary item	1		28,615
Extraordinary item—taxation			(68,000)
Current cost loss attributable to shareholders			(39,385)
Dividends			12,500
Transferred from reserves			(51,885)

Balance sheets as at 31st March, 1981

	Note	The Group £'000	£'000	Pro forma Group £'000	£'000
Fixed assets	7		390,876		298,030
Investments			24,290		59,553
Net current assets					
Stock		25,822		22,473	
Monetary working capital (net)		37,660		32,318	
Total working capital		63,482		54,791	
Other current assets (liabilities)		(25,398)		141,818	
Dividend		(10,000)		(10,000)	
			28,084		186,609
			443,250		544,192
Less: Medium term loans		20,656		20,656	
Provisions		28,416		28,416	
Deferred taxation		63,115		63,115	
Minority shareholders' interests		2,760		25,952	
			114,947		138,139
Net tangible assets			328,303		406,053
Representing:					
Share capital			100,000		135,000
Reserves					
Current cost reserve	8	116,156		108,272	
Other reserves		112,147		162,781	
			228,303		271,053
			328,303		406,053

Notes

1. Introduction
The abridged current cost accounts have been prepared in compliance with Statement of Standard Accounting Practice No. 16, using the same accounting policies as for the historical cost accounts.
The current cost trading profit is the surplus before interest, other income and taxation arising from the ordinary activities of the business during the year. It is determined after allowing for the impact of price changes on the funds needed to maintain the income earning assets of the business (these adjustments being described in notes 2 and 3 below) but does not take into account the way in which these assets are financed.
The current cost profit is the surplus after allowing for the impact of price changes on the funds needed to maintain only the shareholders' proportion of the net operating assets. It is shown after interest, the gearing adjustment described in note 4 below and taxation.
Fixed assets are included in the balance sheet at their net current replacement cost, and stocks at current cost.
Comparative figures for the previous year have not been shown since they are not readily available.

2. Fixed assets and depreciation
The gross current replacement cost of fixed assets has been derived as follows:
Non-specialised buildings and land—valuations at open market value for existing use carried out by *external professional valuers*
Specialised buildings and land—valuations prepared by internal professional staff
Certain plant groups including telephone cables and repeaters—valuations prepared by internal professional staff
All other plant groups—by applying appropriate Government and internally generated indices.
Asset lives have been reviewed upon the introduction of current cost accounting and the existing asset lives were found to be adequate.
The depreciation adjustment of £9,626,000 charged in the current cost profit and loss account (note 5) represents the difference between the depreciation charge calculated by reference to the current cost of fixed assets and the depreciation charge in the historical cost accounts.

3. Working capital
In order to allow for the impact of price changes on working capital two adjustments are made, first *for stock, viz. the cost of sales adjustment, and secondly for monetary working capital. The* adjustments are based on indices issued by HM Government or, where appropriate, on movements in internally generated indices. For both adjustments the averaging method has been used.

4. Gearing adjustment
The gearing adjustment reflects the effect of financing a proportion of the net operating assets by borrowings. It has been calculated having regard, so far as is appropriate, to the post balance sheet events reflected in the pro forma balance sheet.

Cable and Wireless

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Cable and Wireless

5. Current cost operating adjustments	£'000	£'000
Working capital		
Cost of sales	254	
Monetary working capital	736	990
Fixed assets		
Depreciation		9,626
Current cost operating adjustments		10,616

6. Financing of net operating assets	£'000	£'000
Net operating assets		
Fixed assets		390,876
Investments—trade		7,176
—associated companies		17,114
Working capital		63,482
		478,648
Share capital and reserves		328,303
Minority shareholders' interests		2,760
Deferred taxation		63,115
		394,178
Net borrowing		
Medium term loans	20,656	
Bank loans and overdrafts	13,669	
Provisions	28,416	
Other net current liabilities	21,729	84,470
		478,648

7. Fixed assets	Gross current replacement cost £'000	Net current replacement cost £'000
Telephone cables and repeaters	87,208	52,661
Landlines	1,633	1,333
Land and buildings	182,567	131,347
Plant	320,453	181,835
Cableships	76,869	23,700
	648,730	390,876

8. Current cost reserve	£'000
Revaluation surpluses reflecting price changes	
Fixed assets	111,107
Stocks and work in progress	743
Associated companies	5,127
	116,977
Monetary working capital adjustment	736
Gearing adjustment	(1,557)
Balance at 31st March, 1981	116,156
Of which realised	10,034
unrealised	106,122
	116,156

The realised element represents the net cumulative total of the current cost adjustments which have been passed through the profit and loss account and therefore the difference between historical and current cost results for the year ended 31st March, 1981.

9. Pro forma Group balance sheet
The pro forma current cost Group balance sheet reflects the post balance sheet events referred to in note 22 to the historical cost accounts.

Yours faithfully,
DELOITTE HASKINS & SELLS
Chartered Accountants

Appendix I
Principal properties

The following schedule gives details of Cable and Wireless's principal properties and their use.

Owning company and location	Tenure	Use
CABLE AND WIRELESS PUBLIC LIMITED COMPANY		
United Kingdom		
Bedford House, 21a John Street, London, WC1	Freehold	Group administration
Bermuda		
Main Office, Church Street, Hamilton	Freehold	External telecommunications technical and administration centre
St. George's Complex, St. George's Parish	Freehold	Radio transmitting station
Devonshire Complex, Flatts District, Devonshire Parish	Freehold	Radio receiving station; satellite earth station complex
Hong Kong		
RBL602, 608 and 609, Deep Water Bay Road	Leaseholds, unexpired terms approximately 43 years, aggregate rental HK$3,684 per annum	Residential
Qatar		
Main Office, Central Site, Umm-Said Road, Doha	By licence	External and internal telecommunications technical and administration centre
MERCURY HOUSE LIMITED (100 per cent. owned)		
United Kingdom		
Mercury House, Theobalds Road, London, WC1	Freehold	Group administration
THE EASTERN TELEGRAPH COMPANY, LIMITED (100 per cent. owned)		
United Kingdom		
Cable and Wireless Engineering College, Porthcurno, Cornwall	Freehold	Training centre
CABLE AND WIRELESS (WEST INDIES) LIMITED (100 per cent. owned)		
Barbados		
Main Office, Wildey Complex, St. Michael	Freehold	External telecommunications technical and administration centre and sports ground
Congor Bay, Bath, St. John	Freehold	Satellite earth station complex
OLD MERCURY HOUSE LIMITED (100 per cent. owned)		
Hong Kong		
Mercury House, Connaught Road Central	Leasehold, unexpired term approximately 913 years, rental HK$132 per annum	Offices sub-let
CABLE AND WIRELESS (HONG KONG) LIMITED (80 per cent. owned)		
Hong Kong		
New Mercury House, 22 Fenwick Street, Wanchai	Leasehold, unexpired term approximately 64 years, rental HK$4,018 per annum, subject to premium in five further annual instalments of HK$1,109,062 including interest	External telecommunications technical and administration centre
Hermes House, 10 Middle Road, Tsimshatsui, Kowloon	Leasehold, unexpired term approximately 73 years, rental HK$1,000 per annum, subject to premium in nine further annual instalments of HK$12,427,830 including interest	External telecommunications technical centre (new building constructed but not yet in operation)
Stanley IL52, Wong Ma Kok Road, Stanley	Leasehold, unexpired term approximately six years, rental HK$9,574 per annum	Satellite earth station complex
RBL611, 45 Deep Water Bay Road	Leasehold, unexpired term approximately 43 years, rental HK$634 per annum	Coaxial cable terminal
BAHRAIN TELECOMMUNICATIONS COMPANY (40 per cent. owned) (Note)		
Bahrain		
Telephone House, Salmania Complex, Sh. Sulman Road, Manama	Freehold	External and internal telecommunications technical and administration centre
Mercury House, Al Mathania Road, Manama	Freehold	External and internal telecommunications administration centre
Record Services Building, Salmania Complex, Sh. Sulman Road, Manama	Freehold	External telecommunications technical and administration centre (Building under construction)
Ras Abu Jarjur	By licence	Satellite earth station complex

Note: Pending formal transfer, the properties in Bahrain are temporarily held by the Bahrain Government for Bahrain Telecommunications Company.

Appendix II
Franchise operations

The following schedule lists the territories where Cable and Wireless provides telecommunications services under a franchise or similar arrangement and indicates the Company's percentage interest in the operations concerned. Where there is a formal franchise, brief details are given.

Region	The Company's percentage interest	Termination dates of franchises: External telecommunications	Internal telephone services
Far East and South Pacific			
Cook Islands	100 per cent.	28th February, 1995	Service not provided
Fiji	55 per cent.	31st March, 1986	Service not provided
Hong Kong	80 per cent.	30th September, 2006	Service not provided
Macau	75 per cent.	31st December, 2001 (Note 1)	31st December, 2001 (Note 1)
Philippines	40 per cent.	21st June, 2002	Service not provided
Solomon Islands	51 per cent.	20th December, 1988	Service not provided
Tonga	100 per cent.	3rd July, 1988	Service not provided
Vanuatu	50 per cent.	31st May, 1994	Service not provided
Middle East and Africa			
Bahrain	40 per cent.	10th August, 2031 (Note 2)	10th August, 2031 (Note 2)
The Gambia	100 per cent.	31st December, 1987	Service not provided
Qatar	100 per cent.	Terminable on 12 months notice	Service not provided
Sierra Leone	49 per cent.	No franchise (Note 3)	Service not provided
Yemen Arab Republic	*100 per cent.*	*15th September, 1989*	*Service not provided*
Bermuda, Caribbean and Central and South America			
Anguilla	100 per cent.	29th October, 1993	20th April, 1995
Antigua	100 per cent.	31st December, 1993	Service not provided
Barbados	100 per cent.	31st December, 1982	Service not provided
Belize	100 per cent.	31st December, 1987	Service not provided
Bermuda	100 per cent.	30th June, 1987 (Note 4)	Service not provided
Bolivia	100 per cent.	(Note 5)	Service not provided
British Virgin Islands	100 per cent.	31st December, 1992	30th June, 1987
Cayman Islands	100 per cent.	31st December, 1994	31st December, 1994
Dominica	100 per cent.	8th August, 1993	30th November, 1998
Falkland Islands	100 per cent.	Indefinite (Note 6)	Service not provided
Grenada	100 per cent.	31st December, 1992	Service not provided
Jamaica	49 per cent.	18th October, 1988 (Note 7)	Service not provided
Montserrat	100 per cent.	31st December, 1993	31st March, 1987
St. Kitts	100 per cent.	19th February, 1989	Service not provided
St. Lucia	100 per cent.	31st March, 1994	22nd September, 2000
St. Vincent	100 per cent.	30th November, 1988	29th January, 1989
Trinidad and Tobago	49 per cent.	No termination date in franchise	Service not provided
Turks and Caicos Islands	100 per cent.	31st December, 1992	22nd August, 1992
Atlantic and Indian Oceans			
Ascension Island	100 per cent.	Franchise expired 1973. Company continues to operate with approval of the Governor of St. Helena (Note 7)	Service not provided
Gibraltar	100 per cent.	31st December, 1987	Service not provided
The Maldives	100 per cent.	31st December, 1986	Service not provided
Mauritius and Rodriguez	100 per cent.	31st December, 1984	Service not provided
Seychelles	100 per cent.	31st December, 1983	30th June, 1995
St. Helena	100 per cent.	31st December, 1992	Service not provided

Notes:
1 The Governor of Macau has the right, on giving one year's notice, to purchase the Group's interest at book value in the 12 months beginning 20th August, 1996. Otherwise, on the termination by effluxion of time of the franchise, the Group's interest will be transferred to the Governor free of charge.
2 The Bahrain Government has agreed to grant to Bahrain Telecommunications the right to operate external and internal telecommunications during the life of that company.
3 Heads of Agreement provide that the arrangements between the Company and the Government of Sierra Leone are subject to termination on 12 months' notice.
4 In addition to the franchise to operate wireless services, the Company holds three franchises for the operation of cables, together with standby wireless facilities, to the United States, the British Virgin Islands and Canada, which expire on 30th June, 1987, 30th June, 1992 and 30th June, 1994 respectively.
5 The franchise expired in August 1981. The Group continues to provide services, and discussions are being held with the Bolivian Government concerning renewal of the franchise.
6 The Company operates in the Falkland Islands under informal arrangements with the Government there.
7 Subject to termination at any time.

Appendix III
Profit forecast and restated profit forecast

1. **Principal assumptions relating to the profit forecast**
The profit forecast for the year ending 31st March, 1982 which appears under "Profit and dividends for the year ending 31st March, 1982" above is made on the following principal assumptions:—
(a) turnover from the main franchise operations of the Group will continue to grow at forecast rates, which have regard *inter alia* to historical trends and the traffic volume in the first six months of the year;
(b) in respect of the major currencies affecting Group profit, the exchange rates against sterling throughout the remainder of the year will be the same as the rates ruling on 12th October, 1981;
(c) the interest earned on cash balances for the remainder of the year will be at an average rate of 15 per cent. per annum;
(d) the tax liability in respect of the balancing charges on Hong Kong and Bahrain assets transferred, a provision for which was made in the accounts for the year ended 31st March, 1981, *will be calculated by reference to market values which are assumed to approximate to net* book values;
(e) the new arrangements in Bahrain have no material effect on the routing of calls or on the apportionment of revenues and costs under the CTFA;
(f) no action, having a material effect on Group profit, will be taken by overseas governments to acquire interests in any part of the Group's operations;
(g) *constraints on the level of tariffs or changes in the division of revenues between operators of* internal and external services will not have a material effect on Group profit;
(h) there will be no significant adverse effects on the Group arising from industrial disputes or from changes in economic or political circumstances; and
(i) there will be no significant change in the rates of inflation from those now ruling in the main territories in which the Group operates.

2. *Restated profit forecast*
The restated profit forecast for the year ending 31st March, 1982 which appears under "Profit and dividends for the year ending 31st March, 1982" is calculated after adjusting the profit forecast for the year ending 31st March, 1982 to arrive at the position on the bases that:—
(a) the Group's 80 per cent. shareholding in Cable and Wireless (Hong Kong) had been in effect throughout the year;
(b) *the Company's 40 per cent. shareholding in Bahrain Telecommunications and the related* management agreement had been in effect throughout the year;
(c) the Company had had the benefit throughout the year of the sums received in respect of the new arrangements in Hong Kong and Bahrain, net of the tax payable in respect of these transactions, and had earned interest at 15 per cent. per annum on these sums. In calculating the tax payable, a discount factor at the rate of 15 per cent. per annum has been applied to reflect the fact that the tax liability in respect of the balancing charges is payable on 1st January, 1983; and
(d) the Company had had the benefit throughout the year of the £34.5 million net of expenses being raised by the issue of additional share capital and had earned interest at 15 per cent. per annum on this sum.

3. Letters
The following are copies of letters to the Directors of the Company relating to the profit forecast and the restated profit forecast for the year ending 31st March, 1982:
(i) Letter from Deloitte Haskins & Sells:

The Directors,
Cable and Wireless Public Limited Company,
Mercury House,
Theobalds Road,
London WC1X 8RX.

20th October, 1981

Dear Sirs,
We have reviewed the accounting policies and calculations for the profit forecast and the restated profit forecast (for both of which the Directors are solely responsible) of Cable and Wireless Public Limited Company and its subsidiaries ("the Group") for the year ending 31st March, 1982 included in the Offer for Sale to be dated 23rd October, 1981.
In our opinion (a) the profit forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the Directors set out in Appendix III of the Offer for Sale and is presented on a basis consistent with the accounting policies normally adopted by the Group, and (b) the restated profit forecast has been properly compiled on the basis set out in Appendix III of the Offer for Sale.

Yours faithfully,
DELOITTE HASKINS & SELLS
Chartered Accountants

(ii) Letter from Kleinwort, Benson Limited:

The Directors,
Cable and Wireless Public Limited Company,
Mercury House,
Theobalds Road,
London WC1X 8RX.

20th October, 1981

Dear Sirs,
We have discussed with you and with Deloitte Haskins & Sells the profit forecast and the restated profit forecast for the year ending 31st March, 1982 of Cable and Wireless Public Limited Company and its subsidiaries, together with the assumptions, set out in the Offer for Sale to be dated 23rd October, 1981. We consider that the profit forecast and the restated profit forecast (for both of which the Directors are solely responsible) have been made after due and careful enquiry.

Yours faithfully,
for KLEINWORT, BENSON LIMITED,
T. G. BARKER
Director

Appendix IV
Hong Kong

On 1st October, 1981 the telecommunications business previously operated by the Company's Hong Kong branch was acquired by Cable and Wireless (Hong Kong) Limited (" Cable and Wireless (Hong Kong)").
Cable and Wireless (Hong Kong) is a private limited company incorporated in Hong Kong, with an issued share capital of HK$900 million divided into 90 million shares of HK$10 each. The issued shares were initially all owned by Cable and Wireless (Far East) Limited ("Far East"), a wholly owned Hong Kong incorporated subsidiary of the Company.
Under an Agreement between Far East, the Company, The Colonial Treasurer Incorporated ("CTI") and the Hong Kong Government (references hereafter to the Hong Kong Government include CTI where appropriate) dated 1st October, 1981, the Hong Kong Government purchased 18 million shares of HK$10 each in Cable and Wireless (Hong Kong) for a consideration of HK$763.75 million. The Agreement contains representations and warranties by Far East and the Company of the kind customarily given by a vendor in such agreements. There is an overall limit on liability in respect of the representations and warranties of HK$750 million plus costs and expenses. Under a separate agreement the Hong Kong Government has made available a sum not exceeding HK$100 million to defray taxes and duties chargeable by the Hong Kong Government in connection with the formation of Cable and Wireless (Hong Kong) and the acquisition by Cable and Wireless (Hong Kong) of the telecommunications business previously operated by the Company's Hong Kong branch.
A Shareholders' Agreement between Far East, the Company, CTI, the Hong Kong Government and Cable and Wireless (Hong Kong) dated 1st October, 1981 regulates the shareholders' participation in and the conduct of the affairs of Cable and Wireless (Hong Kong). The Agreement contains provisions dealing with *inter alia* the transfer of shares, the quorum for General Meetings and the composition of the Board of Directors. Under the provisions dealing with the transfer of shares the Company agrees not to transfer the ultimate beneficial ownership of its holding outside the Group without the Hong Kong Government's consent, and the Hong Kong Government agrees not to transfer its shares other than to a statutory or other body wholly controlled by the Hong Kong Government. Pre-emption provisions apply if a wider transfer is desired. The quorum for General Meetings is two shareholders representing not less than 61 per cent. of the issued shares. The maximum number of directors is fixed at nine, with Far East having the right to appoint (after consultation with the Hong Kong Government) the chairman and two directors, who shall not be employees of the Company, and a further four directors, of whom one shall be the managing director of Cable and Wireless (Hong Kong) and the remaining three shall be employees of the Company. The Hong Kong Government has the right to appoint two directors. The present directors are:—

Appointed by the Company
Mr. D. W. Lee, C.B.E., J.P. (*Chairman*) — Vice-chairman, Hang Seng Bank Limited
Mr. P. A. McCunn, C.B.E. (*Deputy Chairman*) — the Company's Group Managing Director
Mr. B. A. Pemberton (*Managing Director*) — Managing Director, Cable and Wireless (Hong Kong)
Mr. R. W. Cannon — a Managing Director of the Company
The Hon. S. L. Chen, O.B.E., J.P. — General Manager, Hong Kong Electric Company Limited
Mr. G. F. A. Warwick — formerly the Company's Regional Director, Hong Kong
Mr. W. R. A. Wyllie — Chairman, Asia Securities Limited
Appointed by the Hong Kong Government
Mr. D. W. A. Blye, C.M.G., O.B.E., J.P. — Secretary for Monetary Affairs
Mr. B. D. Keep, J.P. — Director of Civil Aviation

On 1st October, 1981 the Hong Kong Government granted a 25 year franchise to Cable and Wireless (Hong Kong). *Under its terms, Cable and Wireless (Hong Kong) has the exclusive right to provide* certain services in relation to Hong Kong, including the external and internal public telegram and public telex services, the external public telephone services and external leased circuits for telephone, telegraph, data and facsimile services. A royalty based on the annual receipts of Cable and Wireless (Hong Kong) from these services is payable to the Hong Kong Government. The royalty may be reviewed by mutual agreement (failing agreement, by arbitration) with effect from 30th September, 1988, and every five years thereafter during the franchise period, if the Hong Kong Government or Cable and Wireless (Hong Kong) consider that material economic or technical changes, other than of a temporary nature, have resulted in the return to Cable and Wireless (Hong Kong) on capital employed being significantly higher or lower than at the date of grant of the franchise.
Cable and Wireless (Hong Kong) and the Company have entered into an agreement under which the Company will provide Cable and Wireless (Hong Kong) with management and technical services for seven years from 1st October, 1981, and thereafter subject to *one year's notice. The Company will* receive a fee, for each of the first two years, of 5 per cent. of the telecommunications revenue of Cable and Wireless (Hong Kong) and, for the third year, of 4 per cent. of such revenue. The rate of the fee for subsequent years shall be subject to review which may be instigated by either party from time to time to take into account any change in the ability of Cable and Wireless (Hong Kong) to provide the services itself. Under the Shareholders' Agreement referred to above the Company undertakes to provide the services until Cable and Wireless (Hong Kong) is capable of providing *them itself to a sufficient standard.*

Appendix V
Bahrain

Bahrain Telecommunications Company ("Bahrain Telecommunications") was established as a share company in Bahrain by Amiri Decree dated 11th August, 1981 with an authorised capital of 80 million shares of 1 Bahrain dinar each, of which 60 million have been subscribed at par: 10 million by the Government of the State of Bahrain (the "Bahrain Government"), 24 million by the Company, 20 million by Bahrain investors and the remaining 6 million by public subscription in Bahrain.
A Memorandum of Agreement between the Company and the Bahrain Government dated 1st July, 1981 provided for:—
(i) the business of the Bahrain branch of the Company to be transferred to Bahrain Telecommunications (the business initially to be transferred to the Bahrain Government which undertook to transfer it to Bahrain Telecommunications with effect from 1st July, 1981);
(ii) the price payable for the business to be the net book value of assets less liabilities recorded in the books of the Company as assets and liabilities of the branch in Bahrain at 30th June, 1981 as audited by a firm of Chartered Accountants appointed by the Bahrain Government, such net book value of assets to be the original cost of acquisition in sterling converted into Bahrain dinars ("BD") or their then equivalent at the exchange rates ruling at the date of acquisition less depreciation at rates historically applied by the Company in accordance with its established accounting procedures. The sum of BD69 million paid to the Company on 1st July, 1981 on account of such price was a provisional estimate of such value to be audited;
(iii) the Bahrain Government, pending the incorporation of Bahrain Telecommunications, to borrow the sum of BD8 million from the National Bank of Bahrain and apply the same as part of the payment to the Company for the Bahrain business, this liability to be assumed by Bahrain Telecommunications on incorporation;
(iv) a Management Agreement for five years from 11th August, 1981 and thereafter until determined by 12 months notice to be entered into by the Company with Bahrain Telecommunications, for which the Company would be reimbursed the amount of its costs allocated to the Bahrain business on the basis that applied prior to 1st July, 1981, and would receive an annual management fee of the greater of BD360,000 or 5 per cent. of the net profits of Bahrain Telecommunications; pending the signature of the Management Agreement the Company to carry on the business pursuant to the terms of the Memorandum of Agreement;
(v) two directors of Bahrain Telecommunications to be appointed by the Bahrain Government, four by the Company and four by the shareholders other than the Company, the chairmanship to be undertaken by one of the directors appointed by the Bahrain Government;
(vi) the Company not to dispose of its shares within five years from the incorporation of Bahrain Telecommunications but the Bahrain Government at any time after the expiry of such five years, upon request by the Company, to purchase the Company's 40 per cent. shareholding in Bahrain Telecommunications at a price and upon such other terms and conditions as shall be fair and equitable to both parties; and
(vii) Bahrain Telecommunications to have the exclusive right during its existence (which the Articles of Association provide should be for 50 years) to operate Bahrain's internal and external telecommunications.

Appendix VI
Statutory and general information

(i) **The Company.**
The Company was incorporated in England on 8th April, 1929 under the Companies Acts 1908 to 1917 as a company limited by shares. It was registered with the name "Imperial and International Communications Limited", and on 5th June, 1934 adopted the name "Cable and Wireless Limited". On 5th June, 1981 the Company was re-registered as a public company under Section 8 of the Companies Act 1980 and acquired its present name. The registered number of the Company is 238525.
The authorised share capital of the Company was initially £100, divided into 100 Shares of £1 each. The authorised share capital has been increased on three occasions and on 19th October, 1981 comprised 100,000,000 Ordinary Shares of £1 each, all of which were issued fully paid and held by nominees of HM Treasury.
The Company has no founders', management or deferred shares.
By or pursuant to a Special Resolution of the Company passed on 20th October, 1981, conditionally upon the Underwriting Agreement referred to in paragraph (vii) of this Appendix being executed, becoming unconditional and not being terminated pursuant to the terms thereof:—
(a) each of the existing shares was sub-divided into two Ordinary Shares of 50p each;
(b) the authorised share capital of the Company was increased to £160,000,000 divided into 320,000,000 Ordinary Shares of 50p each;
(c) the Directors were generally and unconditionally authorised, pursuant to Section 14(1) of the Companies Act 1980, to allot all existing relevant securities (as defined in Section 14(10) of the said Act) up to an aggregate nominal value of £60,000,000, such authority to expire on 19th October, 1986 unless previously revoked or varied by the Company in General Meeting; and
(d) the Directors were given power to allot equity securities (as defined in Section 17(1) of the Companies Act 1980) pursuant to the authority referred to in paragraph (c) above as if Section 17(1) of the said Act did not apply to the allotment provided that such power was limited:—
(i) to the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares where the equity securities attributable to each such holder are proportionate to the number of Ordinary Shares held by such holder but *subject to such exclusions as the Directors may deem fit to deal with fractional* entitlements, or problems arising in any overseas territory; and
(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £8,000,000, the authority conferred by this sub-paragraph (ii) to expire, unless renewed, at the conclusion of the Annual General Meeting to be held in 1982.
On the same day HM Treasury conditionally agreed to subscribe 70,000,000 Ordinary Shares of 50p each at par.

(ii) **Articles of Association.**
The Articles of Association of the Company contain provisions *inter alia* to the following effect:—
(a) **Voting**
Subject to any special rights or restrictions attached to any shares or class of shares, including the provisions referred to in (d) below, on a show of hands every member present in person shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for each share of which he is the holder.
(b) **Directors**
(i) The Secretary of State for Industry or his successor shall have the right (including the right to nominate existing directors for such appointment) to appoint from time to time not more than two directors ("Government directors") and may remove the same and appoint others in their place and also to appoint alternates for the same.
The Government directors (or their alternates) shall not hold any executive office or the office of chairman or deputy chairman and shall not be subject to retirement by rotation.
The Government directors (or their alternates) shall not vote on, or be counted in the quorum at any meeting in relation to, any issue relating to a contract or other arrangement (other than for the purpose only of providing any guarantee or indemnity) made or proposed to be made to which the Company is a party and the Government or any person representing the Government or on behalf of the Government or a company of which the share capital is wholly owned by or on behalf of the Government is also a party. For the purposes of this paragraph the word "Government" (except where used as part of the expression "Government directors") means the Government of any of the United Kingdom, the Channel Islands, the Isle of Man or any territory which is for the time being a British dependent territory or associated state.
(ii) Each director shall be entitled to receive remuneration for his services at such rate, not exceeding £10,000 per annum, as the directors may from time to time determine.
Any director who holds any executive office (including for this purpose the office of *chairman or deputy chairman, whether or not such office is held in an executive capacity*) or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director may be paid such extra remuneration by way of salary, commission or otherwise as the directors may determine.
Any director acting as a director of any corporate body controlled by the Company or in which the Company is interested may receive and retain any remuneration payable to him as such director and the directors may utilise the voting power on any shares or securities held by the Company in any such company for the purpose of fixing the remuneration of the directors of such company or any of them.
The directors shall be repaid such reasonable travelling, hotel and other expenses as they may incur in attending meetings of the Court or of committees of the Court or general meetings or which they may otherwise incur in or about the business of the Company.
The directors may grant retirement pensions or annuities or other gratuities or allowances, including allowances on death, to any director or ex-director or his widow or dependants and may make payments towards insurances or trusts for such purposes.
(iii) A director (in the absence of some other material interest than is indicated below) may vote at and be counted in the quorum present at any meeting whereat is considered (a) any other director's appointment to hold any office or place of profit under the Company or any other company (unless he is debarred from voting under (g) below) (b) the exercise of any of the rights of the Company (whether by the exercise of voting rights or otherwise) to appoint or concur in the appointment of a director (other than himself) to hold any office or place of profit under any other company (unless he is debarred from voting under (g) below) (c) matters referring to any approved retirement benefit superannuation or employees' share scheme (d) the grant to him of any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company (e) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the director has assumed responsibility (f) any contract to underwrite securities of the Company or a Subsidiary or (g) any contract with another company in which the director's interest is only as an officer of or (included with connected persons) as holder of less than 1 per cent. of any class of the capital or voting rights thereof. The ability of a director to vote or be *counted in a quorum may be further extended by the Company in general meeting.*
(iv) Any provision of the Companies Acts which, subject to the provisions of the Articles of Association, would have the effect of rendering any person ineligible for appointment as a director or liable to vacate office as a director on account of his having reached any specified age or of requiring special notice or any other special formality in connection with the appointment of any director over a specified age, shall not apply to the Company.
(v) At each annual general meeting *one-third of the directors, other than Government* directors, for the time being or, if their number is not three or a multiple of three, then the number nearest to but not greater than one-third shall retire from office. This does not apply to a director who is appointed as executive chairman or as executive managing director.
(c) **Borrowing powers**
(i) *The directors may, subject to the provisions of the Companies Acts,* exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.
(ii) The directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company *in relation to its subsidiary* companies so as to secure (so far, as regards subsidiary companies, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all money borrowed (as defined in the Articles of Association) by the Company and its subsidiaries for the time being and for the time being owing to persons other than the Company and its subsidiaries shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to one and one-half times the *Adjusted Capital and Reserves (as defined in the Articles of Association).* Provided that to the extent that any excess has been caused by currency changes then to that extent there shall not be a breach of the directors' borrowing powers until the expiry of 182 days from the time when such excess came to the notice of the Court.
(d) **Limitations on Shareholdings**
(i) No person shall be entitled to hold Shares representing more than 15 per cent. of all *the Shares then in issue nor (alone or with his Associates)* to exercise (or control the exercise of) more than 15 per cent. of the votes which are ordinarily exercisable on a poll at general meetings of the Company.
In these provisions
"person" includes an individual, a body of trustees, an unincorporated association, a body corporate, a government, a government department, governmental agency or body and a municipal, local or statutory body, but *does not include*:—
(1) HM Government, or a department thereof, or anyone acting on behalf of such Government or department including any Minister or official thereof in his ministerial or official capacity; or
(2) a trustee (acting in that capacity) of any employees' share scheme of the Company; or
(3) SEPON Limited (or any successor of SEPON Limited as a Stock Exchange nominee) save to the extent that SEPON Limited (or any such successor) would otherwise fall to be treated as an Associate of any person by virtue of paragraph (2) in the definition of Associate.
"Associate" means in relation to any person (below referred to in this definition as the "first named person"):
(1) a body corporate (whether registered in the United Kingdom or elsewhere) of *which one-half or more of the voting power exercisable at any general meeting* of the body corporate may be exercised or controlled or of which one-half or more of the directors are appointed (or can be appointed), in either case by the first named person (alone or with any Associates of the first named person); or
(2) any other person who has (whether or not in a manner which is legally binding) agreed or committed himself or become obliged or arranged to exercise or refrain *from exercising any rights attaching to any Share, or any power to dispose of or* retain any Share or any interest therein, in accordance with the suggestions, instructions or directions of the first named person (or of any other Associate of the first named person) Provided that where a person has been appointed to act as the proxy of the first named person to vote at a meeting of the Company neither such proxy nor the first named person shall be the Associate of the other by reason solely of such appointment *and provided further* that no person shall be deemed to be an Associate of any other person by reason solely of membership of the British Insurance Association, the National Association of Pension Funds or other body regarded by the directors as acting in a similar capacity or by reason solely of acting in accordance with the recommendation of any such body; or
(3) if the first named person is a government or government department or government agency *or body, such government or any other department* agency or body of such government or any body corporate which is an Associate of any of the same by virtue of (1) above; or
(4) if the first named person is a trustee of any trust, any or all of the other trustees, any or all settlors of such trust and any or all the beneficiaries (including contingent beneficiaries) under such trust; or
(5) if the first named person is a body corporate, any director of such body corporate and vice versa;
and any Associate of the first named person shall (unless the directors otherwise determine) be deemed also to be an Associate of all other Associates of the first named person.

Cable and Wireless

purpose the directors may authorise in writing any officer or employee of the Company to execute on behalf of the person in question a transfer or transfers of the Excess Shares to the purchaser or purchasers. The net proceeds of the sale of such Excess Shares shall be received by the Company whose receipt shall be a good discharge for the purchase money and shall be paid over by the Company to the former holder or holders upon surrender by him or them of the certificates for the Excess Shares, but such proceeds shall in no circumstances carry interest against the Company.

(v) The directors shall not be required to give any reasons for any decision or declaration taken or made in accordance with these provisions.

(iii) *Directors' interests.*

None of the Directors has any interest in any share capital of the Company or any of its subsidiaries. The executive Directors are eligible to participate in the Cable and Wireless UK Employee Share Scheme.

(iv) **Directors' service agreements.**

There are no existing or proposed service agreements between any of the Directors and the Company or any of its subsidiaries.

The aggregate emoluments of the Directors during the year ended 31st March, 1981 were £204,184. The aggregate emoluments of the Directors during the year ending 31st March, 1982, under the arrangements in force on the date of the Offer for Sale, would be expected to be £239,000. However, it is the intention of the Court following the Offer for Sale to implement a substantial increase in the salaries of executive Directors to levels commensurate with those prevailing in other commercial companies.

(v) **Principal subsidiary and associated companies.**

The Company's principal subsidiary and associated companies, none of the shares of which are listed on a stock exchange, are as follows:—

Name	Territory and year of incorporation	Share capital issued, outstanding and fully paid	Percentage of share capital or interest held	Principal activity
Subsidiary companies:—				
Cable and Wireless (West Indies) Limited	England 1877	£5,000,000	100 per cent.	Public telecommunications carrier
Mercury House Limited	England 1953	£46,000	100 per cent.	Property holding *company*
Asiadata Limited	Hong Kong 1970	HK$5,000,000	70 per cent.	Computer bureau services
Ecodata—Comércio e Indústria Limitada	Brazil 1871	*CRs 61,780,929*	100 per cent.	*Provision of* telecommunications and data equipment and services
Cable and Wireless Systems Limited	Hong Kong 1972	HK$6,000,000	100 per cent.	Provision of telecommunications and data equipment and services
Eurotech B.V.	Netherlands 1974	DFls 10,000,000	100 per cent.	Holding company
Cable & Wireless UK Services Limited	England 1975	£1,480,000	100 per cent.	Provision of telecommunications and data equipment and services
Fiji International Telecommunications Limited	Fiji 1976	Fiji$7,000,000	55 per cent.	Public telecommunications carrier
Cable & Wireless *North America, Inc.*	*United States 1977*	*US$ 23,797,673*	*100 per cent.*	Holding company
Cable and Wireless (Far East) *Limited*	*Hong Kong 1981*	*HK$1,000,000,000*	*100 per cent.*	Holding company
Cable and Wireless (Hong Kong) Limited	Hong Kong 1981	HK$900,000,000	80 per cent.	*Public* telecommunications carrier
Companhia de Telecomunicacoes de Macau S.A.R.L.	Macau 1981	Patacas 70,000,000	75 per cent.	Public telecommunications carrier
Associated companies:—				
Eastern Telecommunications *Philippines, Inc.*	*Philippines 1974*	Pesos 112,500,000	40 per cent.	Public telecommunications carrier
Bahrain Telecommunications Company	Bahrain 1981	BD 60,000,000	40 per cent.	Public telecommunications carrier

(vi) **British Telecommunications Act 1981.**

Under Section 79 of the British Telecommunications Act 1981 it is provided that:—

(a) HM Treasury after consultation with the Secretary of State may at any time dispose of their interest in all or any of the shares of the Company for such sums as HM Treasury may fix. After any such disposal the provisions of certain enactments, which require the payment into the Exchequer of dividends paid on such shares, shall not apply to dividends paid in respect of the shares so disposed of; and

(xi) **General.**

(a) Save as disclosed in the Offer for Sale, no share or loan capital of the Company or of any of its subsidiaries (other than any issue by a subsidiary not affecting the Company's proportionate holding of shares in that subsidiary) has been issued since 22nd October, 1979, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash.

(b) No commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries since the said date in connection with the issue or sale of any share or loan capital of such companies.

(c) *No share or loan capital of the Company or of any of its subsidiaries is under option or* agreed conditionally or unconditionally to be put under option.

(d) No issue of shares of the Company will be made within the foreseeable future without the prior sanction of the Company in General Meeting.

(e) Following this Offer for Sale 50,000,000 Ordinary Shares of the Company will remain unissued, but no issue of such shares which would effectively alter the control of the Company will be made without the prior sanction of the Company in General Meeting.

(f) No Director has, or has had within two years before the date of the Offer for Sale, any interest, direct or indirect, in any assets which have been, or which are proposed to be, acquired or disposed of by or leased to the Company or any of its subsidiaries. No contract or arrangement subsists, or subsisted within two years before the date of the Offer for Sale, in which a Director is or was materially interested and which is or was significant in relation to the business of the Company and its subsidiaries taken as a whole.

(g) Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration *which, in the opinion of the Directors, is of material importance and no litigation or claim* of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

(h) The Directors are of the opinion that the Group carries reasonable insurance cover for all major risks facing it which would be expected to be the subject of insurance cover.

(i) Certain expenses of and incidental to the Offer for Sale will be borne by HM Government. The expenses of and incidental to the issue of 70,000,000 Ordinary Shares and the Offer for Sale which will be borne by the Company, including capital duty, are estimated to amount to approximately £550,000.

(j) In addition to payment of expenses of the Offer for Sale, the Secretary of State for Industry has agreed to pay a fee to Kleinwort, Benson Limited for its services as merchant *banking advisers to HM Treasury* and the Department of Industry in connection with the preparation of the Offer for Sale.

(k) Kleinwort, Benson Limited has given and has not withdrawn its written consent to the issue of the Offer for Sale with the inclusion of its letter and the references thereto in the *form and context in which each is included. Deloitte Haskins & Sells have given and have* not withdrawn their written consent to the issue of the Offer for Sale with the inclusion of their report and letter and the references thereto in the form and context in which each is included. Hillier Parker May & Rowden, Chartered Surveyors, have given and have not withdrawn their written consent to the issue of the Offer for Sale with the inclusion therein of the references to their valuations in the form and context in which such are included. Jones Lang Wootton, Surveyors, have given and have not withdrawn their written consent to the issue of the Offer for Sale with the inclusion therein of the references to their valuations in the form and context in which such are included.

(l) The documents attached to the copy of the Offer for Sale delivered to the Registrars of Companies in England and in Hong Kong for registration were the written consents referred to in paragraph (xi)(k) above, copies of the forms of application, copies of the agreements referred to in paragraph (viii) above and the statement of Deloitte Haskins & Sells setting out the adjustments made in arriving at the figures contained in their report (as set out herein) and giving the reasons therefor.

(m) *The Company's principal office and place of business in Hong Kong is at New Mercury* House, 22 Fenwick Street, Wanchai.

(n) The documents attached to the copy of the Offer for Sale delivered for registration to the Registrar of Companies in Gibraltar (where the Company's principal place of business is at Mount Pleasant, 25 South Barrack Road) were copies of the forms of application.

(o) On admission to the Official List of The Stock Exchange in London, the Ordinary Shares will be "wider range investments" within the meaning of the Trustee Investment Act 1961.

(p) The Offer for Sale is being issued in Hong Kong in Chinese: in the event of any conflict between the Offer for Sale in English and the Chinese translation, the text and terms of the English text shall for all purposes prevail.

(q) A Certificate of Exemption has been granted by the Council of The Stock Exchange in London pursuant to Section 39 of the Companies Act 1948; a Certificate of Exemption has been granted by the Registrar of Companies in Hong Kong pursuant to the Hong Kong Companies Ordinance.

(xii) **Documents available for inspection**

Copies of the following documents may be inspected in England at the offices of Speechly Bircham, Bouverie House, 154 Fleet Street, London EC4A 2HX, in Hong Kong at the offices of *Johnson, Stokes & Master, Alexandra House, 11th Floor, 16-20 Chater Road and in Gibraltar at* the offices of Triay & Triay, 28 Irish Town during usual business hours on any weekday (Sundays and other non-working days in the relevant territories excepted) for a period of fourteen days following the date of the Offer for Sale:—

(a) the Memorandum and Articles of Association of the Company;
(b) the British Telecommunications Act 1981;
(c) the audited consolidated accounts of the Company and its subsidiaries for the two *financial years to 31st March, 1981;*
(d) the Accountants' Report, together with the statement setting out the adjustments made in arriving at the figures contained in the Report;
(e) the letters of Deloitte Haskins & Sells and Kleinwort, Benson Limited relating to the profit forecast and the restated profit forecast for the year ending 31st March, 1982;
(f) the written consents referred to in paragraph (xi)(k) above;
(g) the material contracts referred to in paragraph (viii) above;
(h) the valuations *of property carried out by Hillier Parker May & Rowden, Chartered* Surveyors, and Jones Lang Wootton, Surveyors, and referred to in the Offer for Sale;
(i) the Trust Deeds constituting the Employee Share Schemes referred to in paragraph (x) above; and
(j) the letter from HM Government referred to under "Relationship with HM Government" above.

Dated 23rd October, 1981.

Procedure for application

Applications (other than employee applications on the special Application Forms being made available to them) must be for a *minimum of 100 shares and thereafter for the following multiples of* shares:

Applications for not more than 1,000 shares:	in multiples of 100 shares.
Applications for over 1,000 shares and not more than 10,000 shares:	in multiples of 500 shares.
Applications for over 10,000 shares and not more than 25,000 shares:	in multiples of 1,000 shares.
Applications for over 25,000 shares and not more than 100,000 shares:	in multiples of 5,000 shares.
Applications for over 100,000 shares:	in multiples of 10,000 shares.

Copies of the Offer for Sale, with Application Forms, may be obtained in the United Kingdom from:—

Kleinwort, Benson Limited, 20 Fenchurch Street, London EC3P 3DB
Cable and Wireless Public Limited Company, Mercury House, Theobalds Road, London WC1X 8RX
Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN
James Capel & Co., Winchester House, 100 Old Broad Street, London EC2N 1BQ
Rowe & Pitman, City-Gate House, 39/45 Finsbury Square, London EC2A 1JA

and from National Westminster Bank Limited, New Issues Department, PO Box No. 79, Drapers Gardens, 12 Throgmorton Avenue, London EC2P 2BD, from all principal branches of National Westminster Bank Limited in England, Scotland, Wales, the Channel Islands and the Isle of Man, and from the main branches of Ulster Bank Limited in Northern Ireland.

Copies of the Offer for Sale, with Application Forms, may be obtained in Hong Kong from:—

Kleinwort, Benson (Hong Kong) Limited, 40th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Hong Kong
Cable and Wireless (Hong Kong) Limited, Mercury House, Connaught Road Central, Hong Kong and New Mercury House, 22 Fenwick Street, Wanchai, Hong Kong

and from National Westminster Bank Limited, Hong Kong Branch, 6th Floor, St. George's Building, 2 Ice House Street, Hong Kong.

INSTRUCTIONS FOR PAYMENT AND DELIVERY

PAYMENT

Each application must be accompanied by a separate cheque (including Girocheque) or banker's draft which must be in sterling for the full amount payable on application and made payable to National Westminster Bank Limited and be crossed "Not Negotiable—C & W Shares".

The cheque or banker's draft must be drawn on a branch, in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man, of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of those Clearing Houses (and must bear the appropriate sorting code number in the top right hand corner).

DELIVERY

This application together with your payment as above, should be lodged by hand or posted so *as to be received not later than 10 a.m. London time on Friday, 30th October, 1981 by:*

National Westminster Bank Limited, New Issues Department, P.O. Box No. 79, Drapers Gardens, 12 Throgmorton Avenue, London EC2P 2BD

or lodged by hand not later than 3.30 p.m. London time on Thursday, 29th October, 1981 at one of the addresses listed below:

BELFAST	Ulster Bank Limited, Investment Division, 88 High Street, Belfast, Northern Ireland
BIRMINGHAM	National Westminster Bank Limited, 8 Bennetts Hill, Birmingham
BRISTOL	*National Westminster Bank Limited, 32 Corn Street, Bristol*
CARDIFF	National Westminster Bank Limited, 117 St Mary Street, Cardiff
EDINBURGH	National Westminster Bank Limited, 80 George Street, Edinburgh
GLASGOW	National Westminster Bank Limited, 14 Blythswood Square, *Glasgow*
LEEDS	National Westminster Bank Limited, 8 Park Row, Leeds
LIVERPOOL	National Westminster Bank Limited, 22 Castle Street, Liverpool
MANCHESTER	National Westminster Bank Limited, 55 King Street, Manchester
NEWCASTLE-UPON-TYNE	*National Westminster Bank Limited, 24 Mosley Street,* Newcastle-upon-Tyne
SOUTHAMPTON	National Westminster Bank Limited, 129 High Street, Southampton

or, in the case of Hong Kong applicants, lodged by hand or posted so as to be received not later than 3.00 p.m. Hong Kong time on Thursday, 29th October, 1981 by:

National Westminster Bank Limited, Hong Kong Branch, 6th floor, St. George's Building, 2 Ice House Street, Hong Kong.

Application Form

THE APPLICATION LIST WILL OPEN AT 10 A.M. ON FRIDAY, 30TH OCTOBER, 1981 AND MAY BE CLOSED AT ANY TIME THEREAFTER.

This Application Form when completed should be lodged by hand or posted, together with your remittance for the full amount payable, in accordance with the instructions printed above.

Offer for Sale of 133,285,000 Ordinary Shares of 50p each

Cable and Wireless

PUBLIC LIMITED COMPANY

(Incorporated under the Companies Acts 1908 to 1917)

at 168p per share payable in full on application

by

Kleinwort, Benson Limited

on the instructions of

The Lords Commissioners of H M Treasury

and

The Secretary of State for Industry

To: KLEINWORT, BENSON LIMITED

*Number of shares applied for	†Amount of remittance enclosed
	£

*Applications must be for a minimum of 100 shares and thereafter be for the following multiples of shares:—
Applications for not more than 1,000 shares: in multiples of 100 shares.
Applications for over 1,000 shares and not more than 10,000 shares: in multiples of 500 shares.
Applications for over 10,000 shares and not more than 25,000 shares: in multiples of 1,000 shares.
Applications for over 25,000 shares and not more than 100,000 shares: in multiples of 5,000 shares.
Applications for over 100,000 shares: in multiples of 10,000 shares.
†See instructions above

Examples of amounts payable @ 168p per share

Shares	£
100	168
200	336
300	504
400	672
500	840
1,000	1,680
5,000	8,400
10,000	16,800
25,000	42,000
50,000	84,000
100,000	168,000

For office use only
1. Letter of Acceptance No.
2. Shares accepted
3. Return Cheque No.

I/We enclose my/our remittance for the above-mentioned sum, being the amount payable on application for the above-stated number of Ordinary Shares of 50p each of Cable and Wireless Public Limited Company. I/We offer to purchase that number of shares, or any lesser number of shares in respect of which this application may be accepted, upon the terms of the Offer for Sale dated 23rd October, 1981 and subject to the Memorandum and Articles of Association of Cable and Wireless Public Limited Company.

I/We hereby authorise you to send a renounceable Letter of Acceptance in respect *thereof, and/or a cheque for any application moneys returnable, by post at my/our risk,* to the (first-named) applicant and at his/her address shown below and to procure my/our name(s) to be placed on the Register of Members of Cable and Wireless Public Limited Company as holder(s) of such of the shares (if any) allocated to me/us as have not been duly renounced.

In consideration of The Lords Commissioners of HM Treasury ("HM Treasury") agreeing to accept applications upon the terms and subject to the conditions of the said Offer for Sale for an aggregate number of 133,285,000 Ordinary

Nissho Iwai in Canadian coal deal

By Richard C. Hanson in Tokyo

NISSHO IWAI, one of Japan's large general traders, is to acquire a 10 per cent share in a Canadian coking coal mine project from Teck Corporation, a Canadian mining company.

The investment will give Nissho Iwai the rights to 10 per cent of the coal produced at cost from the Bullmoose project, handling the rest at commercial rates. The volume involved is small compared with Japan's total coal imports (about 2.6 per cent) but Nissho Iwai considers the terms of the participation to be favourable.

The Bullmoose project, located 700 kilometres north-east of Vancouver, is part of a scheme to tap undeveloped coal resources in Canada, with Government financial assistance in constructing, shipping, and other infrastructure facilities needed for development. Government aid has apparently depended on commitments from Japanese buyers.

This is the first time Nissho Iwai has invested directly in a coal development project.

Japanese banks seek bond cuts

By Our Financial Staff

A SYNDICATE of 33 banks and securities houses will this week ask the Japanese Finance Ministry for a substantial cut in the amount of 10-year national bonds to be floated in November.

The Ministry proposes to issue Y1,000bn ($4.3bn) of bonds next month on terms unchanged from October when Y80bn worth of bonds were issued with an 8 per cent coupon at 98.

Swiss banks expect favourable results

BY JOHN WICKS IN ZURICH

SWITZERLAND'S two top banks expect favourable results this year, according to their third-quarter reports. Union Bank of Switzerland and Swiss Bank Corporation both produced peak profits for 1980.

Union Bank expects "good results" for 1981. The bank, whose net earnings last year were SwFr 334.1m ($177.1m), has already reported a rise in profits for the first half and it expects the current half to be satisfactory.

Swiss Bank Corporation, whose 1980 profits improved to SwFr 288.6m ($151.9m), expects "satisfactory" earnings for the year as a whole after a rise in operating profits for the first three quarters. At mid-year SBC forecast that its 1981 results would be at about the same level as last year.

These two largest of Switzerland's "big five" banks are thus more optimistic than Credit Suisse, the third biggest Swiss bank, which last week was forced to announce that profits would be down on the 1980 figure of SwFr 281m.

This year so far, Union Bank has strengthened its position as top bank in asset terms. Largely because of a 13 per cent rise in the due-from-banks sum, its balance-sheet total rose by 2 per cent in the third quarter to SwFr 85.4bn.

In contrast, the SBC balance sheet dropped slightly, by 0.4 per cent to SwFr 81.3bn in the quarter, because of the effect on foreign branch business of the weaker dollar.

Both banks record a continued increase in clients' time deposits, simultaneous with a drop in sight deposits and savings accounts. The interim report from Union Bank calls this an "unwelcome shift."

Last week's report from Credit Suisse contrasted with the relatively buoyant tone of statements from the bank earlier in the year. In July shareholders were told to expect satisfactory results for 1981.

Trading at Credit Suisse has latterly been hit by the need to increase depreciation and risk provisions.

Hitachi expands TV side in U.S. with new plant

BY OUR TOKYO STAFF

HITACHI, Japan's largest integrated electrical machinery maker, will spend $4m to build a second television plant in the California, boosting its annual capacity for colour television production from 240,000 sets to 300,000 next year.

The company said it decided to build a second plant, in Anaheim, near Los Angeles, because its first plant, in Compton, was too small to allow for expansion. Through its subsidiary, Hitachi Consumer Products of America, the company built the first plant in 1979.

The new site will be about three times as large as the existing site. For the time being it will only manufacture large-size television sets.

Rizzoli to close three newspapers

By James Buxton in Rome

CORRIERE della Sera, Italy's leading newspaper, failed to appear over the weekend because of a strike by workers in protest against a big redundancy programme announced by its owners, the Rizzoli group.

The group plans to close three newspapers in the next two months, as well as a magazine for children, a television current affairs programme and its books by mail-order business. Other publications and TV programmes put out by the group are to be re-examined. About 1,230 jobs are to go.

The three newspapers to be closed are L'Occhio, a minor national paper with a circulation of about 80,000, Corriere d'Informazione, a Milan paper with sales of 50,000, and Lavoro, a Genoa paper selling 20,000.

The Rizzoli group claims that the closures will save it about L20bn to L25bn ($21m) a year. The group is in financial difficulties because of its excessive debt, the servicing of which absorbed 41 per cent of turnover last year.

A controversial scheme to increase capital by L153bn to L178bn with Banco Ambrosiano taking a 40 per cent stake is officially going ahead but has caused considerable political controversy.

Staff at Corriere della Sera are campaigning for the departure of Sig. Angelo Rizzoli, the chairman, and Sig Bruno Tassan Din, the managing director, for allegedly being members of the P2 Masonic Lodge.

Both men have said that they are prepared to sell their stakes but the Socialist Party has tried to block a plan for broadly a-political business interests to take a controlling stake in the group.

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1981 High	1981 Low	Stock	Closing price p	+ or −	Div.	Times covered	Gross yield	P/E ratio
‡110	F.P.	12/11	133	120	Habitat	125	−1	u3.6	1.4	4.1	25.6
62	F.P.	2/10	56½	43	Jeavons Eng.	44	—	b3.75	1.7	12.0	5.6
65	F.P.	—	71	69	Johnstone's Paint	69	−1	b4.55	2.5	7.3	7.2
‡55	F.P.	30/10	30	24	London Private Health 5p	27	—	—	—	—	—
—	F.P.	16/10	167	155	UtdFndFyIns B.R.V.	167	+5	th6.5	—	4.8	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1981 High	1981 Low	Stock	Closing price £	+ or −
‡	F.P.	26/10	100½	98	Austin (F.) Leyton 11½% Pf Cnv. Red 1994	98	—
100	£10	—	12	12	E. Worcs Waterworks 10¾% Rd. Prf. '86	12	—
—	F.P.	—	99¼	92	Hawley Leisure 12½% Cum. Pref.	92	—
‡100	F.P.	—	99¼	96½	Nat wide Bdg Society 15⅞% Bds 29/3/82	96½	−¼
‡100	F.P.	—	99½	99½	do 16¼% Bds 27/10/82	99½	−¼
97.29	£25	—	23¾	22½	Nova Scotia (Province of) 15¾% Ln 2011	22½	−¼
100	£10	—	101	100	Portsmouth 10% Prf. 1986	100	—
—	F.P.	—	3p	1p	Sterling Credit Warrants	3p	−½
100	£10	—	12	12	Tendering H'rd Water 10½% Rd. Prf. '86	12	—
97.53	£30	—	29¾	27	Utd. Mexican States 16¾% Ln. 2008	28	—

"RIGHTS" OFFERS

Issue price p	Amount paid up	Latest Renunc. date		1981 High	1981 Low	Stock	Closing price p	+ or −
14	Nil	30/10	20/11	6pm	3pm	British Benzol	3pm	−1
275	125p	13/7	2/12	182	104	BP	146	−2
76	F.P.	15/10	13/11	78½	69	Brown J.	71	−1
182	F.P.	25/10	27/11	191	182	Fosecco Minsep	184	−2
90	F.P.	21/10	26/11	103	90½	Heelamat	103	−1
250	F.P.	22/10	19/11	262	250	Viner's Units	250	−2

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1981. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. || Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ||| Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ‡ Unlisted Securities Market. ‡‡ London Listing. ‡ Effective issue price after scrip. † Comprising 50 Ordinary at 1p and £1 of 10 per cent Loan 1988.

Public Works Loan Board rates

Effective October 24

Years	Quota loans repaid by EIP†	Quota loans repaid at‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid at‡	Non-quota loans A* repaid at maturity§
Up to 5	17	17¼	17½	18	17¾	18
Over 5, up to 6	17	17½	17	18	17⅞	18
Over 6, up to 7	17¼	17⅜	17	18	17⅜	17
Over 7, up to 8	17⅛	17⅛	16⅞	18	17⅛	17
Over 8, up to 9	17⅛	17	16¾	18	17⅞	17
Over 9, up to 10	17⅛	17¼	16¾	18	17⅞	17
Over 10, up to 15	16⅞	16⅞	16½	17⅞	17	16⅞
Over 15, up to 25	16¾	16¾	16	16⅞	16⅞	16¾
Over 25	16⅝	16¾	16	16⅞	16⅞	16⅝

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except where the forthcoming board meetings (indicated thus*) have been officially published. It should be emphasised that dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Akroyd and Smithers	Nov. 20	Final 18.0
Allied Brew.	Nov. 25	Int. 2.0
Allied Irish	Nov. 12	Int. 3.5
Anderson Strathclyde	Nov. 26	Int. 1.0
Aust. and NZ Banking	Nov. 17	Final 12c
BPB Inds.	Nov. 25	Int. 4.0
*Bank of Ireland	Nov. 5	Int. 8.0
Beecham	Nov. 13	Int. 3.0
Boots	Nov. 13	Int. 2.65
Brit. and Com. Shipping	Nov. 18	Int. 5.5
British Sugar	Nov. 13	Final 12.65
*Brooke Bond	Oct. 27	Final 2.625
Brown (Matthew)	Nov. 26	Final 4.45
Burnett & Hallamshire	Nov. 27	Int. 4.5
Burton	Nov. 18	Final 3.3
Capital & Counties	Nov. 26	Int. 1.0
Cater Ryder	Nov. 10	Int. 4.25
Chloride	Nov. 12	Int. 1.5
Chubb	Nov. 12	Int. 1.96
Churchbury Estates	Nov. 26	Int. 4.0
Costain Bros	Oct. 28	Int. 0.88
*Coats Patons	Oct. 29	Int. 1.4
Common Bros	Nov. 12	Final 3.0
Courtaulds	Nov. 27	Int. nil
De La Rue	Nov. 11	Int. 4.0
*Depart.	Oct. 28	Int. nil
Eastern Produce	Nov. 21	Int. 1.4
Elliott (B.)	Nov. 20	Int. 6.0
Estel	Nov. 20	Int. 2.25
Flight Refuelling	Nov. 12	Int. 0.95
French Kier	Nov. 27	Int. 2.6
GEI Intl.	Nov. 18	Int. 1.76
*Great Portland Estates	Nov. 3	Int. 1.0

NatWest puts $50m capital into NBNA

National Westminster Bank has injected $50m of extra equity capital into National Bank of North America (NBNA). This is its second injection of equity into the bank since it acquired it for $431m in April 1979.

Shortly after the acquisition it increased NBNA's capital by $25m and the latest injection increases the bank's total equity capital to $552.6m, or 5.9 per cent of total assets.

Tom Frost, the NatWest man currently running NBNA, says that the bank has one of the strongest equity bases amongst America's largest banks.

NBNA's net income after security transactions in the third quarter of 1981 was $4.2m, which is unchanged on the figure of a year ago. For the first nine months of the year NBNA's net income is 10 per cent lower at $11.8m. Since the end of last year NBNA's assets have risen by 1 per cent to $9,580m but its net loan portfolio remains unchanged at $5,380m.

During the third quarter of 1981 the bank disposed of $32.5m (book value) of its tax-exempt bond investment portfolio, reducing its low yielding securities and allowing the funds to be invested at significantly higher yields.

Since it acquired the bank two and a half years ago, Mr Frost says that it has made substantial investment in modernising its systems and facilities, in expanding its range of products and marketing activities, greatly strengthening its data processing capability and in training and acquisition of key personnel.

CURRENCIES, MONEY and GOLD

Dollar flexes its muscles

BY JONAS CROSLAND

AS WITH all arguments there must be at least two points of view. In this case one argues for or against the current value of the dollar in exchange markets. There is enough evidence to make a case that economic fundamentals should push the dollar lower. However one cannot hold a position based on economic data and ignore market trends. In short an uprising in Poland is likely to have a much greater short-term effect on currency rates than figures showing that U.S. companies are not destocking in the face of a recession. Consequently the dollar has recently touched its best level on a trade-weighted basis for over a month despite a fall in prime rates to 18 per cent from 20 per cent.

It is interesting to note that record U.S. interest rates have been blamed for a number of ills, to some extent with justification but that a realignment within the European Monetary System, taking the D-Mark from top place to bottom, has enabled most member countries to make some reduction in rates. Unquestionably, Europe has a lot to thank West Germany for in taking on more than her fair share of the effects of current recessionary trends and high inflation.

The UK sits somewhere in the middle. On one side European rates are falling steadily, on the other U.S. rates are stable amid rumblings of worse to come before rates come any nearer to single figures. With gloom and despondency being the order of the day and very tight conditions at the short end, rates have inevitably crept upwards.

The Bank of England has succeeded in keeping the short end sweet however despite a shortage last week of well over £1bn.

As for the dollar, interest rates will remain the governing factor in between bouts of nervousness over the Middle East and Poland and there seems little likelihood of any further decline bearing in mind the high level of U.S. funding requirements in the next few weeks.

THE POUND SPOT AND FORWARD

Oct 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.8125-1.8275	1.8205-1.8220	0.18-0.08c pm	0.86	0.15-0.05 pm	0.22
Canada	2.1875-2.1990	2.1925-2.1935	0.55-0.65c dis	−3.28	1.30-1.50dis	−2.55
Nethlnd.	4.56-4.59	4.56¾-4.57¾	1¼-¾c pm	2.63	4¼-3¾ pm	3.29
Belgium	69.10-69.50	69.30-69.40	20-30c dis	−4.33	65-75 dis	−4.03
Denmark	13.28-13.32	13.30-13.31	¾ore pm-¾ dis	−0.23	¾-1¾ dis	−0.30
Ireland	1.1675-1.1725	1.1690-1.1705	0.13-0.23p dis	−1.97	0.41-0.59dis	−1.71
W. Ger.	4.12-4.16	4.13-4.14	1⅛-1⅛pf pm	4.70	4¾-4⅜ pm	4.23
Portugal	118.10-119.50	118.70-119.20	75-365c dis	−22.19	120-650dis	−12.95
Spain	176.50-177.50	176.50-176.75	par-25c dis	−0.85	40-75 dis	−1.30
Italy	2190-2199	2195¾-2197¾	11-14 lire dis	−6.83	34-38 dis	−6.56
Norway	10.88-10.99	10.93¾-10.94¾	3¼-2¼ore pm	3.22	7¼-6¼ pm	2.51
France	10.36-10.42	10.38¾-10.39¾	3¾-1¾c dis	−0.58	[illegible] dis	−1.06
Sweden	10.16-10.22	10.19½-10.20½	3¼-2¼ore pm	3.09	9-8 pm	3.33
Japan	423-428	422½-423½	3.65-3.35y pm	9.93	9.60-9.30 pm	8.94
Austria	28.80-29.15	29.05-29.10	15-10 gro pm	5.16	24½-14½ pm	2.65
Switz.	3.43-3.47	3.43½-3.44½	1⅜-⅞c pm	3.92	4½-4 pm	4.94

Belgian rate is for convertible francs. Financial franc 77.00-77.10. Six-month forward dollar 0.10-0.20c dis, 12-month 0.80-0.90c dis.

THE DOLLAR SPOT AND FORWARD

Oct 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8125-1.8275	1.8205-1.8220	0.18-0.08c pm	0.86	0.15-0.05 pm	0.22
Ireland†	1.5540-1.5600	1.5560-1.5600	0.40-0.30c pm	2.69	0.85-0.65 pm	1.92
Canada	1.2040-1.2053	1.2044-1.2047	0.33-0.38c dis	−3.54	0.74-0.79dis	−2.54
Nethlnd.	2.5050-2.5155	2.5125-2.5155	0.64-0.54c pm	2.82	2.12-2.02 pm	3.29
Belgium	38.01-38.15	38.07-38.09	14-20c dis	−5.35	34-42 dis	−3.98
Denmark	7.2900-7.3125	7.2950-7.3050	par-0.30ore dis	−0.25	par-0.75 dis	−0.20
W. Ger.	2.2675-2.2850	2.2735-2.2745	0.93-0.88pf pm	4.77	2.78-2.73 pm	4.84
Portugal	65.00-65.60	65.30-65.60	45-200c dis	−22.53	65-345 dis	−12.57
Spain	97.00-97.25	97.05-97.10	7-15c dis	−1.36	25-45 dis	−1.44
Italy	1204-1207	1205½-1207	5-8 lire dis	−6.96	19-22 dis	−6.80
Norway	5.9850-6.0200	5.9850-5.9950	1.65-1.25ore pm	2.91	4.00-3.60 pm	2.54
France	5.6850-5.7200	5.7025-5.7125	0.10-0.60c dis	−0.73	1.50-2.25dis	−1.31
Sweden	5.5850-5.6045	5.5850-5.5950	1.50-1.35ore pm	3.06	5.00-4.85 pm	3.53
Japan	232.00-234.00	232.15-232.25	1.90-1.75y pm	9.43	5.25-5.10 pm	8.91
Austria	15.87-15.95	15.94-15.95	8.00-6.50gro pm	5.46	18.25-14.50pm	4.04
Switz.	1.8825-1.9000	1.8890-1.8900	0.75-0.65c pm	4.50	2.50-2.40 pm	5.18

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

GOLD

	Oct. 23		Oct. 22	
Gold Bullion (fine ounce)				
Close	$430-431	(£235¼-237½)	$431-433	(£237¼-239)
Opening	$434-435	(£238¾-238¾)	$433-434	(£238-238½)
Morning fixing	$433.50	(£237.704)	$434.60	(£238.372)
Afternoon fixing	$432.50	(£237.511)	$433.75	(£238.783)
Gold Coins				
Krugerrand	$442½-443½	(£243-243½)	$445½-446½	(£245½-246¼)
1/2 Krugerrand	$228-229	(£125¼-125¾)	$229½-230½	(£126¼-127)
1/4 Krugerrand	$116-117	(£63¾-64¼)	$117-118	(£64¼-65)
1/10 Krugerrand	$47-48	(£26-26½)	$47½-48½	(£26¼-27)
Mapleleaf	$442½-443½	(£243-243½)	$444½-445½	(£245¾-247¾)
New Sovereigns	$105¼-106	(£57¾-58¼)	$105½-106½	(£58¼-58¾)
King Sovereigns	$115-117	(£63¼-64¼)	$115¼-117¼	(£63½-64¾)
Victoria Sovs	$115-117	(£63¼-64¼)	$115¼-117¼	(£63½-64¾)
French 20s	$121.4-125.7	(£66¾-69)	$122-126	(£67¼-69½)
50 pesos Mexico	$532¾-536	(£292¾-294⅛)	$535-538	(£295-296¾)
100 Cor. Austria	$416½-420	(£229-230½)	$418-421	(£230½-232¼)
$20 Eagles	$590-595	(£324-326¾)	$589-594	(£324¾-327½)

OTHER CURRENCIES

Oct. 23	£	$		£ Note Rates
Argentina Peso	11,098-11,118†	6097-6117†	Austria	28.90-29.20
Australia Dollar	1.6005-1.6025	0.8774-0.8778	Belgium	76.25-77.25
Brazil Cruzeiro	204.60-205.60	112.16-112.72	Denmark	13.25-13.40
Finland Markka	8.1133-8.1237	4.4530-4.4550	France	10.34-10.49
Greek Drachma	101.886-105.005	57.25-57.45	Germany	4.12½-4.17½
Hong Kong Dollar	10.90⅛-10.98⅛	5.9825-5.9925	Italy	2180-2230
Iran Rial	146.00*	80.00*	Japan	435-450
Kuwait Dinar (KD)	0.513-0.519	0.2828-0.2831	Netherlands	4.54¾-4.59¾
Luxembourg Fr.	69.30-69.40	38.07-38.09	Norway	10.86-10.98
Malaysia Dollar	4.17½-4.18½	2.2905-2.2935	Portugal	116.75-129
New Zealand Dlr.	2.2265-2.2285	1.2202-1.2217	Spain	174.45-185.60
Saudi Arab. Riyal	6.21-6.27	3.4190-3.4210	Sweden	10.15-10.25
Singapore Dollar	3.82-3.83	2.0955-2.0965	Switzerland	3.43¼-3.47¼
Sth. African Rand	1.7600-1.7615	0.9662-0.9671	United States	1.80½-1.82½
U.A.E. Dirham	6.67-6.73	3.6710-3.6740	Yugoslavia	78-82

† Rate given for Argentina is the commercial rate. The financial rate for sterling 15,000-15,020 and for the dollar 8,200-8,250. *Selling rate.

EURO-CURRENCY INTEREST RATES (Market closing Rates)

Oct. 25	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Belgian Franc Convertible	Japanese Yen
Short term	16½-15¾	15-15¼	19-20	12¾-13	7-9¼	10¾-10⅞	15⅝-16⅛	18-21	14-16	6-6¼
7 days' notice	15¾-16	15¼-15½	19-20	12¾-13	17-18	10⅞-11	16-16½	21½-24⅛	14-16	6⅜-6⅝
Month	16¼-16⅜	15⅝-15⅞	18¾-19⅛	12⅞-13	11⅛-11¼	11⅛-11⅜	16⅞-17⅛	22¼-24	16½-20⅞	6⅛-6⅞
Three months	16⅝-16⅞	16¼-16½	18⅝-19	12⅞-13	11⅛-11¼	11⅛-11⅜	17⅞-18⅛	22⅞-24	19⅞-21⅝	7⅛-7⅜
Six months	16⅝-16⅞	16½-16¾	18⅝-19	12⅜-12⅝	11⅛-11⅜	11⅛-11⅜	18⅞-19⅛	23½-24½	19½-20¼	7⅛-7⅜
One Year	16¼-16⅝	16⅜-16⅝	18⅝-19	12½-12⅝	10⅞-10⅞	11⅛-11⅜	18¾-19¼	23¼-24¼	18-18¾	7⅛-8⅛

SDR linked deposits: one month 13$\frac{15}{16}$-14$\frac{3}{16}$ per cent; three months 14$\frac{3}{16}$-14$\frac{11}{16}$ per cent; six months 14$\frac{9}{16}$-14$\frac{13}{16}$ per cent; one year 14$\frac{9}{16}$-14$\frac{13}{16}$ per cent.
ECU linked deposits: one month 14$\frac{15}{16}$-15$\frac{3}{16}$ per cent; three months 15⅛-15½ per cent; six months 15⅜-15¾ per cent; one year 15⅜-15⅝ per cent.
Asian $ (closing rates in Singapore): one month 15$\frac{15}{16}$-16$\frac{1}{16}$ per cent; three months 16$\frac{7}{16}$-16$\frac{9}{16}$ per cent; six months 16$\frac{11}{16}$-16$\frac{13}{16}$ per cent; one year 16$\frac{9}{16}$-16$\frac{11}{16}$ per cent. Long-term Eurodollar two years 16⅝-16⅞ per cent; three years 16¾ per cent; four years 16¾-17 per cent; five years 16¾-17 per cent nominal closing rates.
The following nominal rates were quoted for London dollar certificates of deposit: one month 15.40-15.50 per cent; three months 15.55-15.65 per cent; six months 16.10-16.20 per cent; one year 16.05-16.15 per cent.

FT LONDON INTERBANK FIXING (11.00 a.m. OCTOBER 23)

3 months U.S. dollars		6 months U.S. dollars	
bid 16 5/16	offer 16 7/16	bid 16 9/16	offer 16 11/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

Oct. 23 1981	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ⊕	Eligible Bank Bills ⊕	Fine Trade Bills ⊕
Overnight	—	15¼-85	15⅝	—	—	15½	14-15¼	—	—	—
2 days notice	—	—	15¾	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	15½-15⅞	15¾	—	15⅞	16¼	14¾-15¼	—	—	—
One month	16⅜-16⅛	16⅛-16⅝	15⅞-16¼	16½-16⅛	16⅝	16½	15¼	15½-15$\frac{11}{16}$	16⅞-15$\frac{15}{16}$	16½
Two months	16⅝-16⅝	16⅝-16⅞	—	16¾-16½	16⅞	—	15⅝	15⅞	16$\frac{1}{16}$-16$\frac{1}{16}$	16⅞
Three months	16¾-16½	16⅞-16⅞	16¼-16½	16⅞-16½	16¾	—	15½	16	16$\frac{1}{16}$	16⅝
Six months	16¾-16⅝	16½-16$\frac{11}{16}$	16-16¼	16⅞-16½	16⅝	—	—	—	15½	16⅛
Nine months	16⅞-16⅜	16⅜-16⅞	—	16¾-16⅜	16⅞	—	—	—	—	—
One year	16⅝-16¼	16¼-16$\frac{7}{16}$	16	16½-16⅛	16⅝	—	—	—	—	—
Two years	—	—	16	—	—	—	—	—	—	—

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates nominally three years 16 per cent; four years 16 per cent; five years 16 per cent. ⊕Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 15⅞-15$\frac{15}{16}$ per cent; four-month trade bills 16½ per cent.

Approximate selling rate for one-month Treasury bills 15⅛-15$\frac{9}{16}$ per cent; two months 15¾ per cent; three months 15⅞ per cent. Approximate selling rate for one month bank bills 15¾-15$\frac{13}{16}$ per cent; two months 15$\frac{29}{32}$-15$\frac{15}{16}$ per cent; and three months 15$\frac{15}{16}$ per cent; one month trade bills 16⅝ per cent; two months 16$\frac{5}{16}$ per cent; three months 16⅝ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 14½ per cent from October 1 1981. Clearing Bank Deposit Rates for sums at seven days' notice 14 per cent. Clearing Bank Rates for lending 16½ per cent. Treasury Bills: Average tender rate of discount 15.9537 per cent.

CURRENCY RATES

Oct. 23	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.630465	0.588382
U.S. $	14	1.14650	1.07159
Canadian $	18.30	1.38096	1.29073
Austria Sch.	6¾	18.2741	17.1240
Belgian F.	13	43.6501	40.8330
Danish K.	11	8.38578	7.83601
D mark	7½	2.61402	2.45948
Guilder	9	2.87886	2.69837
French Fr.	9½	6.55913	6.12200
Lira	19	1383.83	1292.87
Yen	6¼	267.478	249.895
Norwgn. Kr.	9	6.89218	6.42955
Spanish Pta.	8	111.270	104.137
Swedish Kr.	11	6.41008	6.00091
Swiss Fr.	6	2.17285	2.02981
Greek Dr'ch.	20½	—	61.5861

OFFSHORE & OVERSEAS—contd.

Fleming Japan Fund S.A.
37, rue Notre-Dame, Luxembourg

Fleming Oct 20	US$58.84	—	4.70

Frankfurt Trust Investment—GmbH
Wiesenau 1, D-6000 Frankfurt

FT-Interzins	DM39.36	43.02	−0.05	—
Frankft. Effekt. Fd.	DM55.33	58.24	+0.09	—

Free World Fund Ltd.
Butterfield Bldg., Hamilton, Bermuda.

NAV Sept. 30	US$144.82	—	—

G. T. Management (U.K.) Ltd.
Park Hse., 16 Finsbury Circus, London EC2
Tel: 01-628 8131. TLX: 886100
London Agents for:

Anchor 'B' Units	US$1.59	1.64	.....	1.49
Anchor Gilt Edge	£7.77	7.82xd	−0.04	16.24
Anchor Int. Fd.	US$7.74	7.95	.....	1.51
Anchor In. Jsy. Tst.	47.1	50.3	.....	1.49
Berry Pac Fd.	US$61.06	—	.....	0.90
Berry Pac Strlg.	£4.11	4.295	.....	0.97
G.T. Asia Fd.	HK$20.68		.....	1.21
G.T. Asia Sterling	£28.31	29.47	.....	1.76
G.T. Australia Fd.	A$28.98		.....	1.21
G.T. Bond Fund	US$10.48		+0.02	10.97
G.T. Dollar Fd.	US$12.14		+0.21	1.24
G.T. Dlr. (Strlg.) Fd.	£15.20	15.83	+0.49	1.31
G.T. Invest. Fd.	US$16.08		−0.12	0.62
G.T. Japan Small Cos.	US$15.51		.....	—
G.T. Technology Fd.	US$26.45		.....	—
G.T. Pacific Fd.	US$15.26		−0.08	0.23
G.T. Asean Growth Fd.	US$9.78		−0.09	0.51

Gartmore Invest. Ltd. Ldn. Agts.
2, St. Mary Axe, London, EC3. 01-283 3531

Gartmore Fund Managers (C.I.) Ltd. (a) (h)
41, Broad St., St. Helier, Jersey. 0534-73741

Gilt Fund (Jersey)	76.0	80.0	.....	14.65

Gartmore Fund Managers (Far East) Ltd. (a)(h)
1503 Hutchison Hse., 10 Harcourt Rd., H. Kong

Australian Tst.	US$7.12	7.648	.....	—
HK & Pac. U. Tst.	HK$7.00	7.512	−0.212	2.60
Japan Fd.	US$20.65	22.118	.....	0.60
N. American Tst.	US$21.55	23.125	.....	1.00
Intl. Bond Fund	US$9.596	10.310	.....	9.60

Gartmore Fund Managers (IOM) (a)
P.O. Box 32 Douglas, Isle of Man Tel. 0624 23911

Gartmore Intl. Inc.	21.1	22.5	.....	14.90
Gartmore Intl. Grth.	140.3	149.3	.....	0.60

هكذا من الأجل

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED

Abbey Unit Tst. Mngrs. (a)

Allen Harvey & Ross Unit Tst. Mngrs.

Allied Hambro Ltd. (a) (g)

Anderson Unit Trust Managers Ltd.

Ansbacher Unit Mgmt. Co. Ltd.

Anthony Wieler Unit Tst. Mgmt. Ltd.

Arbuthnot Securities Ltd. (a)(c)

Archway Unit Tst. Mgs. Ltd.(a)(c)

Arkwright Management

Barclays Unicorn Ltd.(a)(c)(g)

Baring Brothers & Co. Ltd (a)

Bishopsgate Progressive Mgmt. Co.

Bridge Fund Managers (a)(c)

Britannia Gp. of Unit Trusts Ltd. (a)(c)(g)

The British Life Office Ltd (a)

Brown Shipley & Co. Ltd. (a)(g)

Buckmaster Management Co. Ltd.

Canada Life Unit Trust Mngrs. Ltd.

Capel (James) Mngt. Ltd.

Carr, Sebag Unit Trust Managers(a)

Charities Official Invest. Fund

Chieftain Trust Managers Ltd. (a)(g)

Confederation Funds Mgt. Ltd. (a)

Crescent Unit Tst. Mngrs. Ltd.

Crescent Unit Tst. Mngrs. Ltd. (a)(g)

Dartington Unit Trust Mngt. Ltd.

Discretionary Unit Fund Managers

E. F. Winchester Fund Mngt. Ltd.

Emson & Dudley Tst. Mngmt.

Fidelity International Management Ltd.

James Finlay Unit Trust Mngt. Ltd.

Framlington Unit Mgt. Ltd. (a)

Robert Fraser Trust Mgt. Ltd.

Friends' Prov. Trust Managers (a)(b)(c)

Funds in Court

G.T. Unit Managers Ltd.

G. & A. Trust (a) (g)

Gartmore Fund Managers (a)(g)

Govett (John)

Grieveson Management Co. Ltd.

Guardian Royal Ex. Unit Mgrs. Ltd.

Henderson Administration (a) (b) (c)

Hill Samuel Unit Tst. Mgrs.

HK Unit Trust Managers Ltd.

Investment Intelligence Ltd.

Key Fund Managers Ltd. (a) (g)

Kleinwort Benson Unit Managers

L & C Unit Trust Management Ltd.

Legal & General (Unit Tst. Mgrs.) Ltd.

Leonine Administration Ltd.

Lloyds Bk. Unit Tst. Mngrs. Ltd. (a)

Lloyd's Life Unit Tst. Mngrs. Ltd.

Local Authorities' Mutual Invest. Tst.

M & G Group (y)(c)(z)

Mercury Fund Managers Ltd.

Midland Bank Group Unit Trust Managers Ltd.

Minster Fund Managers Ltd.

MLA Unit Trust Mngmnt. Ltd.

Murray Johnstone U.T. Mgmt. (a)

Mutual Unit Trust Managers (a)(g)

National Provident Inv. Mngrs. Ltd.

National Westminster (a)

NEL Trust Managers Ltd. (a) (g)

Northgate Unit Trust Managers Ltd. (c)(y)

Norwich Union Insurance Group (b)

Pearl Trust Managers Ltd. (a)(g)(z)

Pelican Units Admin. Ltd. (g)(x)

Perpetual Unit Trust Mngmt. (a)

Practical Invest. Co. Ltd. (y)(c)

Provincial Life Inv. Co. Ltd.

Prudl. Portfolio Mngrs. Ltd. (a) (b) (c)

Quilter Management Co. Ltd.

Reliance Unit Mgrs. Ltd.

Ridgefield Management Ltd.

Rothschild Asset Management (a) (g) (c)

Rowan Unit Trust Mngt. (a)

Royal Tst. Can. Fd. Mgrs. Ltd.

Save & Prosper Group

Schroder Unit Trust Managers Ltd.

Scottish Amicable Inv. Mngrs. Ltd.

Scottish Equitable Fund Mgrs. Ltd.

Scottish Widows' Fund Management

SIMCO Money Funds

Stewart Unit Tst. Managers Ltd.(a)

Sun Alliance Fund Mangmt. Ltd.

Swiss Life Pen. Tst. Man. Co. Ltd.(a)(c)

Target Tst. Mngrs. Ltd. (a) (g)

Tower Unit Trust Mngt. Ltd.

Trades Union Unit Trust Managers

Transatlantic and Gen. Secs. Co. (y)

TSB Unit Trusts (b) (c) (y)

Tyndall Managers Ltd.(a)(c)(y)

Ulster Bank (a)

Unit Trust Account & Mgmt. Ltd.

INSURANCE & PROPERTY

Abbey Life Assurance Co. Ltd.

Albany Life Assurance Co. Ltd.

AMEV Life Assurance Ltd.

Barclays Life Assur. Co. Ltd.

Black Horse Life Ass. Co. Ltd.

Canada Life Assurance Co.

Cannon Assurance Ltd.

Capital Life Assurance

Charterhouse Magna Gp.

Chieftain Assurance Funds

City of Westminster Assurance

Commercial Union Group

Confederation Life Insurance Co.

Cornhill Insurance Co. Ltd.

Credit & Commerce Insurance

Crown Life

Crusader Insurance PLC

Eagle Star Insur/Midland Assur.

Equity & Law Life Ass. Soc. Ltd.

Family Assurance Society

Assicurazioni GENERALI S.p.A.

General Portfolio Life Ins. C. Ltd.

Growth & Sec. Life Ass. Soc. Ltd.

Guardian Royal Exchange

Hambro Life Assurance Limited

Hearts of Oak Benefit Society

Henderson Administration

Hill Samuel Life Assur. Ltd.

Imperial Life Ass. Co. of Canada

Irish Life Assurance Co. Ltd.

King & Shaxson Ltd.

Langham Life Assur. Co. Ltd.

Legal & General (Unit Assur.) Ltd.

Legal & General Prop. Fd. Mgrs. Ltd.

Life Assur. Co. of Pennsylvania

Lloyds Life Assurance

London Indemnity & Gnl. Ins. Co. Ltd.

London Life Linked Assur. Ltd.

The London & Manchester Ass. Gp.

M & G Group

Merchant Investors Assurance

NEL Pensions Ltd.

NPI Pensions Management Ltd.

New Zealand Ins. Co. (UK) Ltd.

Norwich Union Insurance Group

Pearl Assurance (Unit Funds) Ltd.

Phoenix Assurance Co. Ltd.

Planned Savings Group

Premium Life Assurance Co. Ltd.

Prop. Equity & Life Ass. Co.

Property Growth Assur. Co. Ltd.

Provident Capital Life Ass. Co. Ltd.

Provincial Life Assurance Co. Ltd.

Prudential Pensions Limited

Refuge Investments Limited

Reliance Mutual

Rothschild Asset Management

Royal Insurance Group

Save & Prosper Group

Schroder Life Group

Scottish Amicable Investments

Scottish Mutual Assurance Society

Scottish Widows' Group

Solar Life Assurance Limited

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd.

Sun Life Unit Assurance Ltd.

Sun Life Pensions Management Ltd.

Target Life Assurance Co. Ltd.

Transinternational Life Ins. Co. Ltd.

Trident Life Assurance Co. Ltd.

Tyndall Assurance/Pensions

Vanbrugh Life Assurance

Vanbrugh Pensions Limited

Welfare Insurance Co. Ltd.

Windsor Life Assur. Co. Ltd.

OFFSHORE & OVERSEAS

Adig Investment

Albany Fund Management Limited

Alexander Fund

Allen Harvey & Ross Inv. Mgt. (C.I.)

Alliance International Dollar Reserves

Arbuthnot Securities (C.I.) Ltd.

B.I.A. Bond Investments AG

Bank of America International S.A.

Barbican Managers (Jersey) Ltd.

Barclays Unicorn International

Bishopsgate Commodity Ser. Ltd.

Bridge Management Ltd.

Britannia Intl. Investment Mngmt. Ltd.

Brown Shipley Tst. Co. (Jersey) Ltd.

Buttress Management Co. Ltd.

CAL Investments (IoM) Ltd.

Capital International S.A.

Capital Asset Managers Ltd.

Continued on previous page

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

1A	10	Aust. 5½pc '81-82	96	28.8	5.75	15.75
1J	1D	Do. 6pc 1981-83	85¼	30.4	7.23	15.79
1Ja	1J	N.Z. 7¼pc 1988-92	58	1.6	12.98	15.99
15J	15D	Do. 7½pc '83-86	76	15.5	10.20	15.76
1A	10	S. Rhod. 2½pc Non-Ass.	134	3766	—	—
—		Do. 3½pc 80-85 Asstd.	54	10.8	6.52	21.20
—		Do. 4½pc 87-92 Asstd.	34	7.7	13.55	20.20
—		Zimbabwe Ann (£100pa)	325	—	—	24.47

LOANS

Public Board and Ind.

Financial

Building Societies

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

Jan Ag.J.O.	Inco‖	712p	30.4	$US20c	—	1.6
F.My.Au.N.	Int. Nat. Gas $1	625p	30.10	$1.10	—	7.8
June Dec	Rio Algom	16⅛	4.5	$1.50	—	4.1
SeDeMrJu	Seagram Co. C$1	30⅛	18.8	US$1.40	—	2.6
F.MyAuN.	Tor. Dom. Bk. $1	13½	23.9	$1.80	—	5.9
J.Ap.Jy.O.	Trans Can. Pipe	820p	26.6	$1.16	—	6.3

BANKS AND HIRE PURCHASE

Hire Purchase, etc.

BEERS, WINES AND SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ENGINEERING MACHINE TOOLS

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

[illegible]

INSURANCE

[illegible]

INSURANCE—Continued

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc.

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

RUBBERS AND SISALS

[illegible]

TEAS

India and Bangladesh

[illegible]

Sri Lanka

[illegible]

Africa

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

MINES—Continued

Australian

[illegible]

Tins

[illegible]

Copper

[illegible]

Miscellaneous

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
May	Burma Mines 10p	12	30.3	0.75	0.9	8.9
—	Colby Res. Corp.	170	—	—	—	—
Aug. Feb.	Cons. Murch. 10c.	290	30.6	t030c	1.8	5.9
—	††Explaura Gold	9½	—	—	—	—
—	††Hemerdon 10c.	68	—	—	—	—
—	Highwood Res.	95	—	—	—	—
—	Northgate C$1	305	977	—	—	—
Jan. July	R.T.Z.	450	18.5	16.0	2.3	5.1
—	Do. 9¾% Cv.Ln.Ln. '95-2000	£103½	18.5	Q9½%	—	f9.4
—	††SPD Minerals 10p	26	—	—	—	—
—	Sabina Inds. C$1	22	—	—	—	—
—	‡Southwest C. 10p	25	—	—	—	—
—	Tara Exptn. $1	565	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ф Figures or report awaited.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 163(2)(a); not listed on any Stock Exchange and not subject to any listing requirements.
- ‡‡ Dealt in under Rule 163(3).
- ♯ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value.

§§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. ★★ Available only to UK pension schemes and insurance companies engaged in pension business. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1981-82. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1982. K Figures based on prospectus or other official estimates for 1981-82. M Dividend and yield based on prospectus or other official estimates for 1980. N Dividend and yield based on prospectus or other official estimates for 1981. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

Stock	Price	+or−	IRISH	Price	+or−
Albany Inv. 20p	41	.....	Conv. 9% '80/82	£92⅝	+⅛
Bertrams	8	.....	Nat. 9¾% 84/89	£68½	.....
Bdg'wtr. Est. 50p	400	−5	Fin. 13% 97/02	£73	.....
Craig & Rose £1	£13	.....	Alliance Gas	80	+10
Finlay Pkg. 5p	21½	.....	Arnott	212	.....
Graig Ship. £1	£19	−1	Carroll (P.J.)	76	+1
Higsons Brew	63	.....	Concrete Prods.	90	.....
Holt (Jos) 25p	505	.....	Heiton (Hldgs.)	24	.....
I.O.M. Stm. £1	148	−2	Irish Ropes	40	−1
Pearce (C. H.)	760	.....	Jacob	65	.....
Peel Hldgs.	112	.....	T.M.G.	16	+1
Sheff. Refrshmt	90	.....	Unidare	60	.....
Sindall (Wm.)	190	.....			

OPTIONS

3-month Call Rates

[illegible]

"Recent Issues" and "Rights" Page 28

FINANCIAL TIMES

Monday October 26 1981

Demand over Budget strategy

BY ELINOR GOODMAN, LOBBY CORRESPONDENT

SPENDING MINISTERS are expected to press for an advance indication of the broad thrust of Budget strategy next spring. They want to know in advance whether the Chancellor intends introducing a reflationary or deflationary package. They also want to be told in broad terms what approach he intends taking towards tax.

Even some of the Ministers who this time last year were still prepared to support the Treasury say that this time they are not prepared to be "bounced" into accepting the Chancellor's proposals and that they will want time to give their view on what he proposes.

Since the protests over the way the last Budget was handled, the Prime Minister has already agreed that there should be a more open discussion of economic strategy, but what some Ministers now have in mind would be a major departure from recent practice.

This emerged yesterday amid new claims by the Chancellor's critics that there is no longer a majority either in the Cabinet or the Parliamentary Party for the Government's medium-term financial plan or a deflationary budget.

Sir Ian Gilmour, sacked last month by Mrs Thatcher and since then one of her most outspoken critics, claimed on London Weekend Television yesterday that Mrs Thatcher coud now see the "writing on the wall" for the medium-term strategy as clearly as anyone else. He claims she would be committing "political suicide" if she tried to ignore the views of her colleagues.

He maintained that the medium-term strategy was already a thing of the past. The monetary targets were never met, and it was very unlikely that the Public Sector Borrowing Requirement would be on target next year.

Sir Ian, whose tone throughout the interview would have infuriated Mrs Thatcher, claimed that the "wets" were winning all the intellectual arguments both within the Cabinet and the party. The present strategy was "like Harry Lauder going on about keeping on to the end of the road."

Sir Ian, who at one point was being pressed to stand against Mrs Thatcher for the leadership this autumn, said that he thought it would be a mistake to challenge her now.

Although the Treasury had to modify its target for public spending cuts at last week's Cabinet, yesterday MPs loyal to Mrs Thatcher were insisting that Sir Ian was greatly overstating the degree of unanimity among the Treasury's opponents within the Cabinet and that when it came to the crunch they would not be able to present a united front.

A number of Tory backbenchers still think there should be a challenge for the leadership and have not given up hope of persuading someone to stand.

Mrs Thatcher will have an opportunity to show whether she has taken any of the arguments on board on Wednesday when she faces a "no confidence" motion from the Opposition.

Her speech may show a slight change of emphasis towards presenting what the Government has done to help industry more positively.

Rate-rise curb laws reconsidered

BY ROBIN PAULEY

THE GOVERNMENT is considering a major change to its legislative plans to curb rate rises. It is doing so because of growing fears some Labour councils plan large budget deficits and then to force the Environment Department to sort out the consequences.

It was planned that councils wanting to spend more than a limit which had been determined centrally would be required to hold a referendum, to fix the next year's rate, in October, more than halfway through the financial year.

Now, however, the Environment Department is looking at the possibility of forcing such councils to hold a referendum in March.

The change is considered because of threats by some Labour leaders to budget for high spending levels in the spring. They would then borrow virtually all the money for the year in the seven months to the referendum, which would be required to authorise the new rate-bill to balance the books, and spend it.

They would expect to lose the referendum and pass council affairs to the Government, telling Ministers to make service cuts and order redundancies.

Under the initial proposals the amount a council could raise in the first rate-call in the spring would be limited by the Government. If a council wanted to spend more it would have to levy a supplementary rate in July.

This would also be limited and would include a differential to ease the burden on non-domestic ratepayers and swing more of the costs on to domestic ratepayers.

If this still did not provide enough income to finance a council's plans, a second supplementary rate, also with a differential in favour of non-domestic ratepayers, would be needed.

There would be no limit to its size but a referendum would be needed first. Failure in a referendum would lead to a council having to seek government permission to borrow money so it could "tick-over" for the rest of the year. The rate for the following year could not be fixed without Government agreement on its level.

The only way to operate this system without it being a total cash-limit would be to allow councils to borrow to finance expenditure against expected income on the assumption they would win the referendum.

This facility for deficit-budgeting is new to local government financial arrangements. A few Labour leaders see it as a weapon to cause both financial chaos and embarrassment to central Government.

Environment Department officials said this was theoretically possible when details were first announced. They thought it unlikely to happen, however, in practice. They have now changed their minds.

The new idea would mean a referendum for permission for the second supplementary rate being called in March. It would be, in effect, a referendum on the entire budgetary plan for the year for those councils whose plans were so expensive they would need a second supplementary.

If a referendum was won, the procedure would be the same as originally planned, with the first rate-bill being limited and the two supplementary bills going out in July and October. It would still not be possible to send the supplementary bills with the main bill in April.

If a referendum was lost, however, in March, councils would have either to cut their plans to a level of spending equivalent to the first rate-call and the first supplementary rate, or they would have to negotiate with the Government on how to operate their finances for the year.

Swiss is compromise candidate to head BIS

By David Marsh and Peter Montagnon

THE TOP job in international central banking, the presidency of the Bank for International Settlements in Basle, looks almost certain to go to Dr Fritz Leutwiler, president of the Swiss National Bank.

Dr Leutwiler is likely to take over the BIS post—which brings prestige and a handsome (though never disclosed) income—at the end of the year from Dr Jelle Zijlstra, president of the Netherlands central bank, who is retiring.

Dr Leutwiler has been put forward partly as a compromise candidate to avoid ruffling national sensitivities over the running of the BIS.

Owned and operated by the world's leading central banks, the "central bankers' bank" was set up 51 years ago to handle German reparations after the First World War.

It functions as a discreet forum for international monetary talks and as a highly profitable vehicle through which central banks around the world invest their reserves on financial markets.

The French authorities had expressed disquiet that the institution was becoming dominated by German-speaking countries, and had put forward their own candidate but this seems to have won little support from the other industrialised countries.

In a move further to spread the balance of power at the BIS, Mr Gordon Richardson, governor of the Bank of England, is expected to take over Dr Zijlstra's job as chairman of the central bank governors of the industrialised countries' club, the Group of Ten and Switzerland. This group meets regularly as part of the gatherings of central banks in Basle.

In effect, this will prevent Dr Leutwiler—known for his outspoken views on gold and monetary policy—from wielding too much influence on the international bankers' circuit.

Dr Leutwiler, who is expected to be appointed to the BIS job for a three year period, will stay on at the Swiss National Bank as well. Up to a short while ago, it had been thought that he wanted to retire earlier.

Dr Zijlstra has headed both the BIS and the Netherlands central bank for nearly 15 years. Agreement on the changes is expected to be reached at the meeting of central bankers in Basle on November 9 and 10. A decision may, however, not be announced until December.

THE LEX COLUMN

Why ConsGold digs deep for Newmont

Last week's truce between Consolidated Gold Fields and Newmont Mining leaves the U.S. natural resources sector without a cracking takeover story for the first time in many months. ConsGold, which currently has around 11½ per cent of Newmont, will build up its stake to a maximum of 26 per cent and has agreed to hold it at that level until 1985.

The compromise will not be wholly satisfactory to either party. ConsGold had after all announced that it wanted to buy between 25 and 49 per cent of Newmont, and the U.S. Federal Trade Commission had quite unexpectedly given it the green light. Even the FTC, whose appetite for paper is almost insatiable, wilted before the ConsGold onslaught — 80,000 documents weighing half a ton, delivered in a truck.

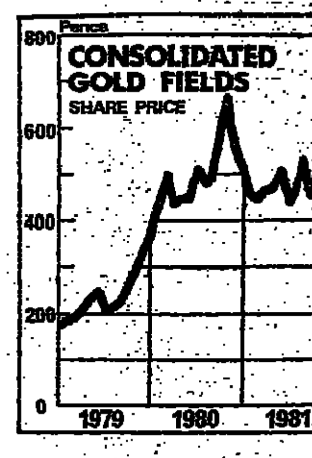
Newmont has made no secret of its hostility to ConsGold's aspirations and must be anxious about what happens when the agreement expires. It is presumably no coincidence that ConsGold can start buying again on the day after Newmont's chairman and driving force is due to retire.

But at least ConsGold has established a major foothold in the U.S. non-ferrous metals business. It apparently had its eye on five U.S. companies after last year's £181m rights issue and was initially most attracted to Phelps Dodge. It decided in the end that Phelps was too heavily committed to copper and turned its attention to Newmont.

Copper currently accounts for much less than half of Newmont's earnings, but only because of the depressed copper price. On a replacement cost basis, its copper reserves are worth six times its coal holdings and about 20 times its gold reserves. A key consideration for ConsGold, however, was the excellent geographical spread of Newmont's assets.

ConsGold paid an average of $59 per share for its first 8 per cent of Newmont, so the $72m it is paying for 1m Treasury shares looks on the high side, particularly after allowing for asset dilution. But it can buy about another 1m shares in the market and Newmont shares conveniently slipped $8 to $49 in the New York market over just two days last week. So the average cost may work out not much above $60 per share. At that price, a 26 per cent stake would cost about $420m.

ConsGold will be satisfied with the price, particularly as it converted its rights issue cash into dollars at $2.41. But



although it is putting two men on the Newmont board and will equity-account its holding, the initial return will be low. Newmont's dividend was only $2 per share last year and the prospects for 1981 are little better.

So Newmont will not do much for ConsGold's cash flow. The UK group is spending £20m a year on exploration and its UK earnings are insufficient to cover the ACT bill. But over the long term, Newmont should justify the investment, and ConsGold has plenty of resources left to boost its UK base.

The truce does not, of course, mean the end of the bidding war in the U.S. natural resources industry. Newmont could soon be on the takeover trail itself. It has cashed in holdings in St. Joe Minerals and Conoco for a capital gain of over $300m this year. Add to that the $72m being provided by ConsGold and Newmont has a veritable war chest.

French risk

A survey of Euromarket bankers on the question of France's credit standing under a Socialist government, conducted by the influential Agéfi newsletter, has thrown up some interesting results. Of the 322 banks which responded (rather over a quarter of the newsletter's non-French subscribers) half think France's credit standing in the international markets is no longer Triple A; and nearly two-thirds expect the U.S. commercial paper rating to be downgraded. Only 30 per cent of the respondents are proposing to increase their exposure to French debt.

It may be argued that the bulk of those who did not bother to respond are probably quite happy with France's creditworthiness. But the numbers voting against are not negligible; after all, many bankers are anxious to take on more lending to developed countries at the expense of the third world and the Community bloc. France used to be undisputed Top Borrower, yet here are 160 bankers who think it is no longer a Triple A credit.

The day the Agéfi questionnaire was sent out to readers French borrowers' paper took a turn for the worse in the dollar Eurobond market. Two recent issues by French names have been successful but both have been laced with enticing special features.

France's foreign borrowing seems likely to rise for balance of payments reasons, and that in itself would argue for rather less of a borrower's market. Of course bankers always think spreads are too low, and are usually willing to talk their book. But it must be said that the determination of country risk has recently seemed the most inaccurate, and among the most meretricious, of financial pseudo-sciences — there are vacant chairs in the universities of Warsaw and Tehran.

Components

The stock market was starting to become nervous about possible calamities at BL last week, but it has yet to discount any very serious loss of orders for the component companies. Their shares lost ground in a weak market on Friday and the major BL suppliers have underperformed the FT Actuaries All-Share Index by between 2 per cent, in the case of Guest, Keen and Nettleford, and 15 per cent, in the case of Automotive Products, since the beginning of the month.

The exposure of the component suppliers to BL has declined significantly over the past few years, in line with BL's falling market share. Yet any sustained loss of car production would still deal a severe blow to the suppliers. AE, for instance, depends on BL for 10 per cent of its sales. That is half the figure of a decade ago but is still substantial.

The impact of a stoppage would not be immediate, and suppliers would continue to produce replacement parts for the foreseeable future. But, for most companies, trouble could hardly come at a worse time. The rise in interest rates has postponed the expected period of restocking and, although some benefit is being derived from the weaker pound, the U.S. market is hardly buoyant. News of a $468m third-quarter loss from General Motors last week only deepened the gloom.

Miners reject own moderate

By Christian Tyler, Labour Editor

THE MAN drafted by trade union moderates to stop Mr Arthur Scargill capturing the presidency of the National Union of Mineworkers has suffered an extraordinary setback at the hands of miners in his own area.

It was thought yesterday in the Nottinghamshire coalfield that Mr Ray Chadburn, president of the Notts miners, had failed to secure the nomination of his area's branches.

Instead, a majority of the 32 branches and their 33,000 members has backed Mr Scargill, left-wing president of the neighbouring Yorkshire area. A report of the branches' decision is due to be considered by the Notts area council of the union today.

Before branches completed the nomination process this weekend, it was known that 12 collieries, accounting for more than a third of the Notts miners, were supporting Mr Scargill.

Mr Chadburn had hoped, nonetheless, to secure the necessary majority in an area which has traditionally been the bastion of the NUM right-wing.

He will have to hope for the nomination from another coalfield. Even if he secures that his credibility as leading candidate of the Right is bound to suffer, increasing the suspicion of NUM moderates that Mr Scargill is virtually unstoppable.

Mr Chadburn, having once declared himself a likely runner and then withdrawn early this year, was persuaded to stand again only 10 days ago.

The other main challenger on the moderate slate is Mr Trevor Bell, secretary of the white-collar section of the union.

Much to his annoyance, the NUM right-wing caucus—prompted by retiring national president, Mr Joe Gormley—decided that his credentials were not strong enough to constitute a serious alternative to Mr Scargill.

Export boost may offset rise in interest rates, says CBI

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

THE INCREASES in interest rates introduced in the past five weeks have hit businessmen's confidence about the prospects of manufacturing industry climbing out of the recession.

They have also delayed the gradual ending of de-stocking in many companies, so postponing any significant increase in overall demand.

These are likely to be two of the main conclusions of the Confederation of British Industry's quarterly survey of manufacturing industry trends to be published on Thursday.

But these gloomy results are tempered by forecasts from CBI economists that the fall in the value of sterling should boost exports and decrease imports sufficiently to offset the impact of the higher interest rates.

The survey is likely to support this view by showing that demand for exports has improved following the fall in sterling. Many companies have also been able to increase their profit margins on exports.

This should help offset the impact of higher interest rates on company finances and is the main short-term reason why the economists believe the two events will cancel each other out.

The chemical industry in particular has benefited in recent weeks and this is expected to be reflected in the survey.

But interest rates are still dampening demand. This cannot be quickly offset in most other industries by the fall in sterling because of the long lead times in many export contracts.

With little general recovery in demand, the survey and the economists' forecasts will underline the view of manufacturers that a gradual climb out of recession is heavily dependent on sterling not rising by any significant amount.

These mixed results and forecasts will enable CBI leaders to present a balanced picture when they publicise the survey just three days before their annual conference opens in Eastbourne with an open forum attended by Sir Geoffrey Howe, the Chancellor, and other politicians.

The CBI will want to emphasise the hopeful signs of some economic recovery because it will not want the conference split between support for the Government and condemnation of the effects that economic policies have had on industry.

The Chancellor's announcement at the end of last week that he is examining possibilities for cutting the National Insurance Surcharge will also help to silence the critics.

Row over Bundesbank profit plan

BY JONATHAN CARR IN BONN

A ROW has broken out over a new West German Government plan to use DM 10bn (£2.43bn) from the profits of the Bundesbank, the independent central bank, to help reduce the Federal budget deficit next year.

The Opposition and senior bankers strongly criticise the new figure, which is much higher than any yet mentioned by the Government.

Herr Hans Matthoefer, the Finance Minister, made it clear only last Thursday that he was expecting DM 8.4bn from the Bundesbank—not the DM 6.1bn recently written into the 1982 budget estimates.

In a radio interview on Saturday, however, he said new Government calculations showed that the Bundesbank would after all be able to pay about DM 10bn. He added that Herr Karl Otto Poehl, president of the Bundesbank, had confirmed to him that this figure was in accord with the Bundesbank's own calculations.

Politically, the size of the figure is of major importance to Chancellor Helmut Schmidt's Social Democrat-Free Democrat coalition.

The Government has just had to reduce its expectations of economic growth next year, which would mean more expenditure for a greater number of unemployed, less tax revenue—and a new budget deficit of at least DM7bn.

The bigger the sum the Government can obtain from the Bundesbank, the less friction there is likely to be in coalition talks—which are continuing today—on how to plug the new budget gap.

Under the Bundesbank law, the central bank is committed to paying over profits to Bonn after making appropriate additions to its own reserves, but there is criticism that the spirit of the law is being undermined.

The finance policy spokesman of the Christian Democrat Opposition said a transfer of central bank profits to Bonn on the present scale had as bad an inflationary impact on the economy as a large increase in Government debt.

Dr Helmut Geiger, head of the Savings Banks Association, said that what he called the Government's "self-service" operation had to stop. He proposed a change in the law.

The argument is of particular intensity because the Bundesbank is making bigger profits than ever before, not least because of exceptionally high interest rates.

Post-Cancun pressure on U.S.

BY WILLIAM CHISLETT AND RICHARD DALE IN CANCUN, MEXICO

THE U.S. is expected to face renewed pressure in the next few months to launch some form of global negotiations on the transfer of resources from rich to poor countries, in the wake of the Cancun summit.

The 22-nation summit ended at the weekend. It produced an agreement to start informal discussions at the United Nations on launching a round of global negotiations but failed to resolve the tricky issue of what form these negotiations should take.

The $8m (£4.4m) summit failed to agree on a specific structure for further talks. This was mainly because of opposition from the U.S. and other developed nations like the UK and Japan. They want existing Western - controlled institutions like the International Monetary Fund and the World Bank to be involved with the negotiations, if they have to be held at all.

The developing nations, on the other hand, want to see the UN as the main forum for the global negotiations. They believe it is here they can command a large majority to reform the traditional Western-dominated financial institutions.

For this reason the informal talks are likely to bring a renewed battle on the issue. The developing nations and some of the industrialised nations have signalled their unwillingness ot allow the U.S. to drag its feet.

President Mitterrand of France, who takes a position closer to the developing countries, warned that he will take the initiative to get the stalled North-South dialogue back on the rails if nothing happens by the end of the year.

Details, Page 2
Editorial Comment, Page 16

Continued from Page 1

Chrysler

able sacrifices and lenders are in the process of being paid off at the rate of 30 cents to the dollar.

That leaves only suppliers, who may well once more be asked to defer their billings to Chrysler.

Chrysler's problems are mounting as U.S. car sales fall from already low levels.

In the first 20 days of October sales were the lowest for more than 20 years, despite an unprecedented price discounting programme for the industry's new 1982 models.

Weather

UK WEATHER

COLD and cloudy with rain.

London, S.E. and E. England
Sunny intervals, scattered showers, dying out. Max. 9C (48F).

Midlands, N.E. England, Edinburg, Dundee, Aberdeen
Sunny periods, becoming cloudy with some rain. Max. 9C (48F).

Wales, S.W. and N.W. England
Becoming cloudy, rain spreading from West. Max. 11C (52F).

S.W. Scotland, Glasgow, Moray Firth, Orkney, Shetland
Cloudy, snow or sleet turning to rain. Max 9C (48F).

N. Ireland
Cloudy, rain spreading from West. Max. 10C (50F).

Outlook: Unsettled, windy and cold.

WORLDWIDE

		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	F	17	63	London	C	8	46
Algiers	S	21	70	L. Ang.†	C	17	63
Amsdm.	R	8	46	Luxmbg.	C	6	43
Athens	S	23	73	Luxor	S	35	95
Bahrain	S	30	86	Madrid	S	15	59
Barclna.	S	17	63	Majorca	F	19	66
Belfast	F	6	43	Malaga	S	22	72
Belgrd.	S	10	50	Malta	C	20	68
Berlin	C	8	46	M'chstr	R	5	41
Biarritz	R	9	48	Melbne	C	19	66
Bmghm.	F	8	46	Mex. C.†			
Blackpl.	F	6	43	Miami†	F	26	79
Bordx.	C	12	54	Milan	F	8	46
Boulgn.	R	9	48	Montrl.†	F	1	30
Bristol	R	6	43	Moscow	C	12	54
Brussels	F	11	52	Munich	F	8	46
Budpst.	F	10	50	Nairobi	C	23	73
Cairo	S	29	84	Naples	S	17	63
Cardiff	C	6	43	Nwcstl.	S	7	45
Cas'b'ca	F	23	73	N. York†	F	7	45
Cape T.	F	27	81	Nice	S	16	61
Chicg.†	C	3	37	Oporto	F	17	63
Cologne	C	7	45	Oslo	C	2	36
Cpnhgn.	F	9	48	Paris	F	11	52
Corfu	S	19	66	Perth	C	20	68
Denver†	S	4	25	Prague	C	4	39
Dublin	C	6	43	Rykvk.	F	2	28
Dbrvnk.	S	15	59	Rhodes	C	23	73
Ednbgh.	F	5	41	Rome	F	16	61
Faro	S	22	72	Salzbrg.	S	7	45
Florence	C	9	48	S'ciscot	C	12	54
Frankft.	C	6	43	S. Mritz		—	—
Funchal	C	20	68	Singapr.		—	—
Geneva	R	7	45	S'tiago†		—	—
Gibrltr.	S	20	68	Stockhm.	F	5	41
Gl'sg'w	F	7	45	Strasbg.	R	7	45
G'msey	C	9	48	Sydney	S	26	79
Helsinki	C	4	39	Tangier	S	22	72
H. Kong	S	25	77	Tel Aviv	S	26	79
Innsbrk.	C	5	41	Tenerife		—	—
Invrnss.	F	6	43	Tokyo		—	—
I.o.Man	C	5	4[illegible]	T'r'nto†	F	2	36
Istanbul	C	16	61	Tunis	R	14	57
Jersey	R	8	4[illegible]	Valencia	S	18	64
Jo'burg	C	14	[illegible]	Venice	F	13	55
L. Plms.	F	23	73	Vienna	S	9	48
Lisbon	S	18	64	Warsaw	C	5	41
Locarno	C	9	48	Zurich	C	8	46

C—Cloudy. F—Fair. Fg—Fog. H—Hail. R—Rain. S—Sunny. Sl—Sleet. Sn—Snow. T—Thunder. † Noon GMT temperatures.

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